

STATE OF INDIANA

FILED

INDIANA UTILITY REGULATORY COMMISSION

JUL 17 2007

INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF OHIO VALLEY GAS, INC. FOR (1))
AUTHORITY TO INCREASE ITS RATES AND CHARGES)
FOR GAS UTILITY SERVICE; (2) APPROVAL OF NEW)
SCHEDULES OF RATES AND CHARGES AND CHANGES)
TO ITS GENERAL RULES AND REGULATIONS)
APPLICABLE TO GAS UTILITY SERVICE, INCLUDING)
INCREASES IN CERTAIN NON-RECURRING CHARGES; (3))
AUTHORITY TO IMPLEMENT A NORMAL)
TEMPERATURE ADJUSTMENT MECHANISM AND DEFER)
THE NORMAL TEMPERATURE ADJUSTMENT MARGINS)
FOR FUTURE RECOVERY OR REFUND; (4) AUTHORITY)
TO IMPLEMENT A PIPELINE SAFETY COMPLIANCE)
COST TRACKING MECHANISM AND DEFERRAL)
ACCOUNTING OF SUCH COSTS UNTIL THE EFFECTIVE)
DATE OF THE TRACKING MECHANISM; (5) APPROVAL)
OF NEW DEPRECIATION RATES; AND (6) APPROVAL)
PURSUANT TO I.C. 8-1-2.5 OF SUCH ALTERNATIVE)
REGULATORY PLAN OR PLANS AS MAY BE)
REASONABLE, NECESSARY AND APPLICABLE TO SUCH)
AUTHORITY, APPROVALS AND DEFERRALS)

CAUSE NO. 43208

PREFILED TESTIMONY OF

MARK H. GROSSKOPF – PUBLIC’S EXHIBIT - MHG

ON BEHALF OF THE

INDIANA OFFICE OF

UTILITY CONSUMER COUNSELOR

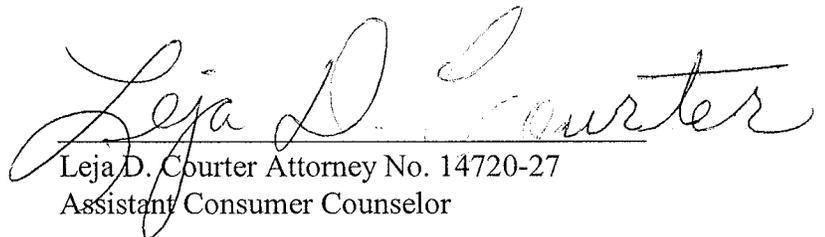
JULY 17, 2007

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing **OUCG PREFILED TESTIMONY OF MARK H. GROSSKOPF** 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 July 17, 2007.

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TESTIMONY OF WITNESS MARK H. GROSSKOPF
CAUSE NO. 43208
OHIO VALLEY GAS, INC.

Introduction

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

2 A: My name is Mark H. Grosskopf 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 employed by the Indiana Office of Utility Consumer Counselor (OUCC) as a
6 Utility Analyst. I have worked as a member of the OUCC's Natural Gas Division
7 since June of 1999.

8 **Q: Please describe your background and experience.**

9 A: I graduated from Indiana University in May 1980, receiving a Bachelor of
10 Science degree in business with a major in accounting. I was employed as an
11 Internal Auditor with Stokely-Van Camp, Inc. from July 1980 to October 1983. I
12 was then employed as an Accountant with Shaffstall Corporation from 1984 to
13 1991; as Accounting Manager with J.M. Mallon, Inc. from 1991 to 1993; and as
14 Controller with Perfection Property Services, Inc. and The Holding Company,
15 Inc., both under the same ownership, from 1994 to 1995. I joined the OUCC in
16 April of 1995. I became a Certified Public Accountant in November of 1998.

1 **Q: Have you previously testified before the Indiana Utility Regulatory**
2 **Commission?**

3 A: Yes, I have testified as an accounting witness in various causes involving water,
4 sewer, electric, and gas utilities.

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

6 A: I will address certain elements in Petitioner's request for a rate increase, including
7 adjustments to Petitioner's pro forma operating expenses and the overall need for
8 a rate increase. I will discuss Petitioner's proposed Pipeline Safety Act cost
9 recovery tracker. I will sponsor accounting schedules to support pro forma
10 operating expense adjustments described in the testimony of OUCC witness Greg
11 Foster and to support the recommended cost of equity recommended by OUCC
12 witness Bradley Lorton. These schedules incorporate all OUCC adjustments to
13 calculate the total revenue requirements and the resulting recommended rate
14 increase.

15 **Q: What have you done to prepare for your presentation of testimony in this**
16 **proceeding?**

17 A: I have reviewed Ohio Valley Gas, Inc.'s ("Petitioner" or "Ohio Valley Gas")
18 prefiled testimony and exhibits and analyzed supporting documentation and
19 responses to various OUCC discovery requests provided by Petitioner. I
20 conducted an audit of Petitioner's books and records at Petitioner's business
21 offices. I reviewed Petitioner's Annual Reports filed with the Indiana Utility
22 Regulatory Commission. I also participated in various meetings with other
23 OUCC staff members in developing issues in this Cause.

1 **Q: With respect to revenue requirements, what is indicated by your review of**
2 **Petitioner's books and records?**

3 A: A traditional review and calculation of Petitioner's revenue requirements, per its
4 books and records, indicates a revenue shortfall of 7.76%, suggesting an
5 appropriate increase in revenues of \$552,186.

6 **Q: What schedules have you submitted that show pertinent calculations related**
7 **to the OUCC's testimony?**

8 A: I am sponsoring the following Schedules:

9 Schedule 1: Comparison of Petitioner's and the OUCC's Calculation of
10 Revenue Requirements, and Comparison of Income Statement
11 Adjustments.

12 Schedule 2: Petitioner's Balance Sheet as of September 30, 2006.

13 Schedule 3: Petitioner's Income Statement For The Twelve Months
14 Ended June 30, 2006.

15 Schedule 4: Original Cost Rate Base at September 30, 2006.

16 Schedule 5: Pro Forma Net Operating Income Statement.

17 Schedule 6: Pro Forma Present Rate Revenue and Expense Adjustments.

18 Schedule 7: Pro Forma Proposed Adjustments.

19 Schedule 8: Petitioner's Capital Structure as of September 30, 2006.

20 **Q: What do you believe to be a key factor driving Petitioner's request for a rate**
21 **increase?**

22 A: Petitioner has lost substantial throughput of gas commodity since the last increase
23 in rates approved in January 2003. Per my calculations, Petitioner has

1 experienced a 20.4% decline in commodity throughput on a weather normalized
2 basis since December 31, 2001, the test year end for the last rate case. This
3 represents a large decrease in commodity sales and is likely a key factor in the
4 large rate increase Petitioner has requested. Petitioner recovers its revenue
5 requirement through a combination of fixed and volumetric charges. The fixed
6 charges are recovered regardless of the amount of throughput volumes. However,
7 recovery of the volumetric charges, logically, is based on the throughput volumes.
8 Consequently, the significant decline in throughput volumes translates into
9 significant reductions in revenue and partially explains the need for rate relief.

10 **Q: What adjustments has the OUCC recommended to Petitioner's pro forma**
11 **operating expenses and other components of the revenue requirements?**

12 A: I will address adjustments to Petitioner's proposed depreciation expense, utility
13 receipts tax, and state and federal income tax. OUCC witness Greg Foster will
14 address adjustments to Petitioner's proposed payroll and payroll tax expenses, and
15 group insurance expense. Schedule 8 reflects a cost of equity capital of 8.5% as
16 supported in the testimony of OUCC witness Bradley Lorton.

17 **Depreciation**

18 **Q: What is Petitioner's current method or rate for calculating depreciation**
19 **expense on Utility Plant in Service?**

20 A: With the exception of transportation equipment, Petitioner uses a composite
21 depreciation rate. Transportation equipment is depreciated at individual rates
22 determined by the nature of each piece of equipment. All other Utility Plant in

1 Service is depreciated at a composite rate of 3% which was approved by the
2 Commission in Cause No. 32051.

3 **Q: What is Petitioner's proposed method or rate for calculating depreciation**
4 **expense on Utility Plant in Service?**

5 A: Petitioner is proposing to remove office equipment and communications
6 equipment from the Utility Plant in Service pool depreciated at the 3% composite
7 rate, and start depreciating office and communications equipment at an annual
8 rate of 10%. Petitioner's adjustment on Exhibit SMK-3, page 14 increases annual
9 depreciation expense by \$11,581 as a result of the higher proposed rate.

10 **Q: What is the OUCC's recommendation regarding the appropriate**
11 **depreciation rate to use?**

12 A: The OUCC recommends that the Commission approved composite rate for all
13 depreciable assets be used until Petitioner obtains approval from the Commission
14 to use anything other than the composite rate. Transportation equipment is
15 currently excluded from the composite rate in accordance with historic practice.
16 If Petitioner wishes to change depreciation rates for some of the utility's assets, a
17 depreciation study should be done to determine an appropriate rate for all of the
18 current depreciable assets. For these reasons, I have set Petitioner's depreciation
19 adjustment for the proposed increased depreciation rate to \$0. The OUCC's
20 proposed pro-forma depreciation expense is thus based on the Commission
21 approved depreciation rates established in Cause No. 32051.

22

Pipeline Safety Act Expenses

1 **Q: How has Petitioner treated test year Pipeline Safety Act Expenses?**

2 A: Petitioner removed all incremental expenses in the test year associated with the
3 Pipeline Safety Act (PSA). Petitioner proposes to recover these and future
4 Pipeline Safety Act costs through a PSA cost recovery tracker to be implemented
5 subsequent to issuance of an order in this Cause.

6 **Q: Is the OUCC agreeable to this approach?**

7 A: Yes. Because of the uncertainty of annual cost levels for Pipeline Safety Act
8 compliance activities, removal of these costs from the test year is reasonable.
9 The OUCC has recent experience in negotiating PSA tracking mechanisms with
10 other utilities. Recent PSA tracking mechanisms have annual cost recovery caps
11 and term limits at which time the mechanism is re-evaluated by all parties
12 involved. The PSA tracker proposed by Petitioner should be thoroughly reviewed
13 by the Commission after three (3) years of operation in order to determine
14 whether changes should be made to the tracker and/or to determine whether the
15 expenses being tracked have become stable and predictable enough to be
16 embedded into base rates with no further tracking.

17 **Utility Receipts Tax**

18 **Q: Have you made an adjustment to Petitioner's Utility Receipts Tax**
19 **calculation?**

20 A: Yes. The utility receipts in Petitioner's calculation did not agree to the Total
21 Operating Revenues in the Statement of Income for the Twelve Months Ended
22 June 30, 2006, as shown on Petitioner's Exhibit SMK-2. The figures in this

1 Income Statement represent the test year in this Cause as a starting point for all
2 pro forma adjustments. My calculation uses the Total Operating Revenues per the
3 Statement of Income for the Twelve Months Ended June 30, 2006 as adjusted for
4 Petitioner's pro forma revenue adjustments, resulting in total pro forma gross
5 receipts at present rates. The pro forma bad debt deduction in my calculation was
6 also taken from the Statement of Income for the Twelve Months Ended June 30,
7 2006.

8 Federal and State Income Taxes

9 **Q: Please explain your adjustment to Petitioner's federal and state income tax**
10 **calculations?**

11 A: Petitioner calculated income taxes using a deduction from operating income for
12 tax basis depreciation and adjustments for deferred income taxes. Petitioner also
13 included a tax deduction for other deferred timing differences in the income tax
14 calculation. Petitioner eliminated book basis depreciation as a factor in the
15 income tax calculation. Tax depreciation is an accelerated depreciation method,
16 where Petitioner's composite book depreciation rate is a straight line method.
17 Straight line depreciation produces a consistent or level annual depreciation
18 expense.

19 Deferred income taxes reflect the tax effect of book to tax timing
20 differences. Timing differences occur when expenses are recognized in different
21 periods for book and tax purposes. Deferred income taxes should offset the effect
22 of timing differences reflected in the calculation of current income taxes,
23 providing a "levelizing" effect on total income tax expense.

1 A calculation of income taxes using Petitioner's tax basis depreciation,
2 deferred income taxes, and other deferred timing differences produced a different
3 pro forma income tax expense result than an income tax calculation using
4 depreciation expense per the books. To ensure a "levelized" income tax expense,
5 my State and Federal Income Tax adjustment uses pro forma depreciation and
6 other pro forma expenses based on Petitioner's adjusted test year books as
7 deductions from operating revenue, rather than tax depreciation, deferred income
8 taxes, and other deferred timing differences. Also, as shown on the Pro Forma
9 Net Operating Income Statement (Schedule 5), the Provision for Deferred Income
10 Tax has been removed from operating expenses to produce revenue requirements
11 based on Petitioner's adjusted pro forma book balances.

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

13 **A:** Yes, at this time.

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Comparison of Petitioner's and the OUCC's
Revenue Requirement

Description	Per Petitioner	Per OUCC	Sch Ref
Rate Base	\$2,318,288	\$2,318,287	4
Times: Rate Of Return	<u>10.08%</u>	<u>7.41%</u>	8
Net Operating Income	233,683	171,785	
Less: Adjusted Net Operating Income	<u>(181,189)</u>	<u>(156,224)</u>	5
Increase In Net Operating Income	414,872	328,009	
Times: Revenue Conversion Factor	<u>1.6812</u>	<u>1.6834</u>	1
Recommended Revenue Increase	<u>\$697,482</u>	<u>\$552,186</u>	
Overall Percentage Increase (Decrease)	<u>9.81%</u>	<u>7.76%</u>	
Revenue Increase on Gas Sales and Transportation	<u>\$692,303</u>	<u>\$547,007</u>	
Percentage on Gas Sales & Transportation	<u>9.73%</u>	<u>7.69%</u>	
Revenue Increase on Miscellaneous Operating Revenues	<u>\$5,179</u>	<u>\$5,179</u>	
Percentage on Misc. Operating Revenue	<u>53.18%</u>	<u>53.18%</u>	

OHIO VALLEY GAS, INC.
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Comparison of Income Statement Adjustments
Test Year Ending June 30, 2006

Adjustment	Per Petitioner	Per OUCC	OUCC More/Less
Operating Revenues:			
Gas Sales	\$776,470	\$776,470	\$0
Forfeited Discounts	0	0	0
Miscellaneous Operating Revenues	0	0	0
Transportation Revenues	0	0	0
Total Operating Revenues	776,470	776,470	0
Operating Expenses:			
Purchased Gas	805,113	805,113	0
Other Operation & Maintenance:			
Annualized Payroll	16,404	13,030	(3,374)
Payroll Taxes	5,653	5,344	(309)
Liability Insurance	(3,112)	(3,112)	0
Postage	(842)	(842)	0
Rate Case Expenses	3,685	3,685	0
Group Insurance	(38,789)	(44,041)	(5,252)
Scholarships	4,169	4,169	0
Workers Compensation	2,816	2,816	0
Public Utility Fee	1,218	1,218	0
Taxes - General			
Utility Receipts Tax	10,871	10,591	(280)
Property Tax	(3,841)	(3,841)	0
Taxes - Income - State	(3,083)	(7,893)	(4,810)
Taxes - Income - Federal	(12,759)	(40,184)	(27,425)
Provision for Deferred Fed. Inc. Tax	0	28,067	28,067
Depreciation			
Adj. for Plant Additions	2,485	2,485	0
Depr. Rate Change	11,581	0	(11,581)
Total Operating Expense Adjustments	801,569	776,605	(24,964)
Total Net Operating Income Adjustments	(\$25,099)	(\$135)	\$24,964

OHIO VALLEY GAS, INC.
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Revenue Conversion Factor

Description	Per Petitioner		Per OUCC
Gross Revenue Change	100.0000%	1	100.0000%
Less: IURC Fee 2007 (.001062098)	0.1062%	2	0.1062%
Subtotal	100.0000%	3	100.0000%
Less: Utility Gross Receipts Tax (at 1.4%)	1.4000%	4	1.4000%
Subtotal	98.6000%	5	99.8938%
Less: State Adj. Gross Inc. Tax (at 8.5%)	8.3810%	6	8.4910%
Subtotal	90.2190%	7	90.0028%
Less: Federal Income Tax (at 34%)	30.6745%	8	30.6010%
Change In Net Operating Income	59.5445%		59.4019%
Revenue Conversion Factor	1.6794		1.6834

Formula Notes:

Line 5 equals (100% minus Line 2)

Line 7 equals (Line 5 minus Line 6 minus Line 4)

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Balance Sheet as of September 30, 2006

ASSETS

Utility Plant:	
Utility Plant In Service	\$7,241,702
Less: Accumulated Depreciation	<u>(5,035,974)</u>
Net Utility Plant In Service	2,205,728
Construction Work In Progress	<u>103,019</u>
Total Utility Plant	<u>2,308,747</u>
Current and Accrued Assets:	
Cash	477,163
Working Funds	1,450
Accounts Receivable	17,900
Other Accounts Receivable	184
Accumulated Provision for Uncollected Accounts	(22,310)
Accounts Receivable from Associated Companies	2,419,968
Fuel Stock	562
Plant Materials and Operating Supplies	154,961
Stores Expense	22,556
Accrued Utility Revenue	<u>70,948</u>
Total Current Assets	<u>3,143,382</u>
Miscellaneous Deferred Debits:	<u>0</u>
Total Assets	<u><u>\$5,452,129</u></u>

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Balance Sheet as of September 30, 2006

LIABILITIES AND STOCKHOLDERS EQUITY

Stockholders Equity:	
Common Stock	\$4,000,000
Paid In Capital	0
Retained Earnings	<u>346,363</u>
Total Stockholders Equity	<u>4,346,363</u>
Long Term Debt	<u>0</u>
Current & Accrued Liabilities:	
Accounts Payable	441,415
Accounts Payable to Associated Companies	124,882
Customer Deposits	458,511
Accrued Taxes	(248,340)
Accrued Interest	149,261
Tax Collections Payable	9,077
Miscellaneous Current & Accrued Liabilities	<u>49,728</u>
Total Current & Accrued Liabilities	<u>984,534</u>
Deferred Credits:	
Customer Advances for Construction	27,298
Other Deferred Credits	<u>(359,403)</u>
Total Deferred Credits	<u>(332,105)</u>
Contributions In Aid of Construction:	<u>116,329</u>
Accumulated Deferred Federal Income Taxes:	<u>337,006</u>
Total Liabilities and Stockholders Equity	<u><u>\$5,452,129</u></u>

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Income Statement For The Twelve Months Ended June 30, 2006

<u>Operating Revenues</u>	
Gas Sales	\$6,323,801
Forfeited Discounts	26,054
Miscellaneous Operating Revenue	9,739
Transportation Revenues	<u>11,270</u>
Total Operating Revenues	<u>6,370,864</u>
<u>Operating Expenses</u>	
Purchased Gas	4,851,603
Transmission	47,189
Distribution	471,308
Customer Accounting	275,139
Administrative and General	541,421
Depreciation	202,609
Taxes - General	226,481
Taxes - Income - State	(8,162)
Taxes - Income - Federal	(52,568)
Provision for Deferred Federal Income Taxes	<u>(28,067)</u>
Total Operating Expenses	6,526,953
Net Operating Income	<u>(156,089)</u>
<u>Other Income and Deductions</u>	
Other Income - Net	25,239
Other Interest	(27,611)
Miscellaneous Income Deductions	(3,898)
Allowance for Funds Used During Construction	<u>2,637</u>
Total Other Income and Deductions	<u>(3,633)</u>
Net Income	<u><u>(\$159,722)</u></u>

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Original Cost Rate Base at September 30, 2006

Utility Plant In Service at 9/30/06	\$7,317,964
Less: Contributions In Aid of Construction	(116,329)
Less: Customer Advances for Construction	(27,298)
Less: Accumulated Depreciation	(5,028,030)
Less: Affiliate Contract Rate Base Additions (Net of Depreciation)	<u>0</u>
Net Utility Plant In Service	2,146,307
Add:	
Stored Gas	0
Working Capital (Lead/Lag Study)	16,409
Materials and Supplies Inventory (13 month average 9/05 - 9/06)	<u>155,571</u>
Total Original Cost Rate Base	<u><u>\$2,318,287</u></u>

OHIO VALLEY GAS, INC.
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Pro Forma Net Operating Income Statement

Description	Twelve Mos. Ending 6/30/2006	Adjustments	Sch. Ref.	Pro Forma Present Rates	Adjustments	Sch. Ref.	Pro Forma Proposed Rates
<u>Operating Revenues</u>							
Gas Sales	\$6,323,801	\$776,470	Pet.	\$7,100,271	\$546,140	7-1	\$7,646,411
Forfeited Discounts	26,054			26,054			26,054
Miscellaneous Operating Revenues	9,739			9,739	5,179	Pet.	14,918
Transportation Revenues	11,270			11,270	867	7-1	12,137
Total Operating Revenues	6,370,864	776,470		7,147,334	552,186		7,699,520
<u>Operating Expenses</u>							
Purchased Gas	4,851,603	805,113	Pet.	5,656,716			5,656,716
Other Operation & Maintenance:	1,335,057			1,317,324			1,317,910
Annualized Payroll		13,030	6-1				
Payroll Taxes		5,344	6-2				
Liability Insurance		(3,112)	Pet.				
Postage		(842)	Pet.				
Rate Case Expenses		3,685	Pet.				
Group Insurance		(44,041)	6-3				
Scholarships		4,169	Pet.				
Workers Compensation		2,816	Pet.				
Public Utility Fee		1,218	Pet.		586	7-2	
Taxes - General	226,481			233,231			240,962
Utility Receipts Tax		10,591	6-5		7,731	7-3	
Property Tax		(3,841)	Pet.				
Taxes - Income - State	(8,162)	(7,893)	6-6	(16,055)	46,886	7-4	30,831
Taxes - Income - Federal	(52,568)	(40,184)	6-6	(92,752)	168,974	7-5	76,222
Provision for Deferred Inc. Tax	(28,067)	28,067	OUCG	0			0
Depreciation	202,609			205,094			205,094
Adj. for Plant Additions		2,485	Pet.				
Depr. Rate Change		0	6-4				
Total Operating Expenses	6,526,953	776,605		7,303,558	224,177		7,527,735
Net Operating Income	(\$156,089)	(\$135)		(\$156,224)	\$328,009		\$171,785

Federal Tax Proof:

Net Operating Income	\$ 171,785
Add: Federal Income Tax	76,222
Add: Non-Deductible Meals Expense	5,047
Less: Interest Expense	<u>(28,872)</u>
Federal Taxable Income	224,182
Tax Rate	<u>34.00%</u>
Gross Federal Income Tax	76,222
Less: Investment Tax Credit	<u>0</u>
Pro Forma Federal Income Tax	<u>\$76,222</u>

State Tax Proof:

Federal Taxable Income	\$224,182
Add: State Income Tax	30,831
Add: Utility Receipts Tax	<u>107,703</u>
State Taxable Income	362,715
Tax Rate	<u>8.50%</u>
Pro Forma State Income Tax	<u>\$30,831</u>

Utility Receipts Tax Proof:

Total Operating Revenues	\$7,699,520
Less: Wholesale Customer Receipts	0
Less: Exemption	(1,000)
Less: Pro Forma Bad Debt	<u>(5,469)</u>
Taxable Gross Receipts	7,693,051
Tax Rate	<u>1.40%</u>
Pro Forma Utility Receipts Tax	<u>\$107,703</u>

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Adjustments

(1)

Payroll

Payroll Adjustment per Petitioner's SMK-3 Page 6	\$16,573
Less: Exclusion of Allocation to Sales Promotion (per Petitioner)	<u>(169)</u>
Petitioner's Net Payroll Adjustment	16,404
OUCG's Adjustment for Retiree per Exhibit GAF-1	<u>(3,374)</u>
Adjustment - Increase/(Decrease)	<u>\$13,030</u>

(2)

Payroll Taxes

Payroll Tax Adjustment per Petitioner's SMK-3 Page 7	\$5,653
OUCG's Adjustment for Retiree per Exhibit GAF-1	<u>(309)</u>
Adjustment - Increase/(Decrease)	<u>\$5,344</u>

(3)

Group Insurance Adjustment

Group Insurance Adjustment per Petitioner's SMK-3 Page 11	(\$38,789)
Incremental OUCG Adjustment per Exhibit GAF-2	<u>(5,252)</u>
Adjustment - Increase/(Decrease)	<u>(\$44,041)</u>

(4)

Depreciation

Office Furniture & Equipment per Petitioner's SMK-3 Page 14	\$30,599
Communication Equipment per Petitioner's SMK-3 Page 14	134,843
Total Office Furniture & Equipment and Communications Equipment at 6/30/06	<u>\$165,442</u>
Depreciation Expense at the Commission Approved 3% Composite Rate	\$4,963
Less: Pro Forma Depreciation Expense at 3%	<u>(4,963)</u>
Adjustment - Increase/(Decrease)	<u>\$0</u>

OHIO VALLEY GAS, INC.
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Adjustments

(5)

Indiana Utility Gross Receipts Tax

Gross Receipts	\$7,147,334	
Less: Exemption	(1,000)	
Less: Pro Forma Bad Debts	<u>(5,469)</u>	
Utility Gross Receipts Subject to Gross Receipts Tax	7,140,865	
Utility Gross Receipts Tax Rate	<u>1.40%</u>	
Pro Forma Utility Gross Receipts Tax at Present Rates	99,972	
Less: Utility Receipts Tax Per Books at 6/30/06	<u>(89,381)</u>	
Utility Gross Receipts Tax Adjustment - Increase/(Decrease)		<u><u>10,591</u></u>

(6)

State and Federal Income Tax

	<u>Federal</u> <u>Income Tax</u>	<u>State</u> <u>Income Tax</u>
Pro Forma Present Rate Operating Revenue	\$7,147,334	\$7,147,334
Less: Operations and Maintenance	(6,974,040)	(6,974,040)
Depreciation	(205,094)	(205,094)
Taxes Other Than Income	(233,231)	(133,259)
State Income Tax	16,055	
Interest Expense	(28,872)	(28,872)
Add Back:		
Non-Deductible Meals Expense	<u>5,047</u>	<u>5,047</u>
Taxable Income	(272,801)	(188,884)
Multiply by: Federal Income Tax Rate	<u>34.00%</u>	
Multiply by: State Adjusted Gross Income Tax Rate		<u>8.50%</u>
Pro Forma State Income Tax Expense		(16,055)
Pro Forma Federal Income Tax Expense	(92,752)	
Less: Test Year Expense	<u>(52,568)</u>	<u>(8,162)</u>
Adjustment - Increase/(Decrease)	<u><u>(\$40,184)</u></u>	<u><u>(\$7,893)</u></u>

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Pro Forma Proposed Adjustments

(1)

Proposed Rate Increase

Pro Forma Present Rate Sales	\$7,111,541
Times: Rate Increase	<u>7.69%</u>
Adjustment - Increase	<u>\$547,007</u>

(2)

Proposed IURC Fee

Proposed Rate Increase	\$552,186
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>0.1062%</u>
Adjustment - Increase	<u>\$586</u>

(3)

Proposed Utility Gross Receipts Tax

Proposed Rate Increase	\$552,186
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>1.40%</u>
Adjustment - Increase	<u>\$7,731</u>

(4)

Proposed Adjusted Gross Income Tax

Proposed Rate Increase	\$552,186
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>8.49%</u>
Adjustment - Increase	<u>\$46,886</u>

(5)

Proposed Federal Income Tax

Proposed Rate Increase	\$552,186
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>30.60%</u>
Adjustment - Increase	<u>\$168,974</u>

OHIO VALLEY GAS, INC.
CAUSE NO. 43208

Capital Structure
as of September 30, 2006

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$4,346,363	82.14%	8.500%	6.98%
Long Term Debt	0	0.00%	0.000%	0.00%
Customer Deposits	458,511	8.67%	5.000%	0.43%
Accrued Interest	149,261	2.82%	0.000%	0.00%
Deferred Taxes	337,006	6.37%	0.000%	0.00%
Total	<u>\$5,291,141</u>	<u>100.00%</u>		<u>7.41%</u>

