

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

JUL 17 2007

INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF OHIO VALLEY GAS CORPORATION 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. 43209

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 **OUCG PREFILED TESTIMONY OF MARK H. GROSSKOPF** has been served upon the following parties 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, 1007July 16, 2007.

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TESTIMONY OF WITNESS MARK H. GROSSKOPF
CAUSE NO. 43209
OHIO VALLEY GAS CORPORATION

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.

17 **Q: Have you previously testified before the Indiana Utility Regulatory**
18 **Commission?**

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

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

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

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

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

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

1 A: A traditional review and calculation of Petitioner's revenue requirements, per its
2 books and records, indicates a revenue shortfall of 9.57%, suggesting an
3 appropriate increase in revenues of \$3,887,015.

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

6 A: I am sponsoring the following Schedules:

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

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

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

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

14 Schedule 5: Pro Forma Net Operating Income Statement.

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

16 Schedule 7: Pro Forma Proposed Adjustments.

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

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

20 A: Petitioner has lost substantial throughput of gas commodity since the last increase
21 in rates approved in January 2003. Per my calculations, Petitioner has
22 experienced an overall 17.9% decline in commodity throughput on a weather
23 normalized basis since December 31, 2001, the test year end for the last rate case.

1 This represents a large decrease in commodity sales and is likely a key factor in
2 the large rate increase Petitioner has requested. Petitioner recovers its revenue
3 requirement through a combination of fixed and volumetric charges. The fixed
4 charges are recovered regardless of the amount of throughput volumes. However,
5 recovery of the volumetric charges, logically, is based on the throughput volumes.
6 Consequently, the significant decline in throughput volumes translates into
7 significant reductions in revenue and partially explains the need for rate relief.

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

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

15 Depreciation

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

18 A: With the exception of transportation equipment, Petitioner uses a composite
19 depreciation rate. Transportation equipment is depreciated at individual rates
20 determined by the nature of each piece of equipment. All other Utility Plant in
21 Service is depreciated at a composite rate of 2.9% which was approved by the
22 Commission in Cause No. 32049.

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

3 A: Petitioner is proposing to remove office equipment and communications
4 equipment from the Utility Plant in Service pool depreciated at the 2.9%
5 composite rate, and start depreciating office and communications equipment at an
6 annual rate of 10%. Petitioner's adjustment on Exhibit SMK-3, page 16A,
7 increases annual depreciation expense by \$100,969 as a result of the higher
8 proposed rate.

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

11 A: The OUCC recommends that the Commission approved composite rate for all
12 depreciable assets be used until Petitioner obtains approval from the Commission
13 to use anything other than the composite rate. Transportation equipment is
14 currently excluded from the composite rate in accordance with historic practice.
15 If Petitioner wishes to change depreciation rates for some of the utility's assets, a
16 depreciation study should be done to determine an appropriate rate for all of the
17 current depreciable assets. For these reasons, I have set Petitioner's depreciation
18 adjustment for the proposed increased depreciation rate to \$0. The OUCC's
19 proposed pro-forma depreciation expense is thus based on the Commission
20 approved depreciation rates established in Cause No. 32049.

21 **Pipeline Safety Act Expenses**

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

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

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

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

16 **Utility Receipts Tax**

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

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

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

7
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 CORP.
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Comparison of Petitioner's and the OUCC's
Revenue Requirement

Description	Per Petitioner	Per OUCC	Sch Ref
Rate Base	\$32,249,225	\$32,249,225	4
Times: Rate Of Return	<u>9.74%</u>	<u>7.13%</u>	8
Net Operating Income	3,141,075	2,300,751	
Less: Adjusted Net Operating Income	<u>(154,067)</u>	<u>(8,208)</u>	5
Increase In Net Operating Income	3,295,142	2,308,959	
Times: Revenue Conversion Factor	<u>1.6812</u>	<u>1.6834</u>	1
Recommended Revenue Increase	<u>\$5,539,794</u>	<u>\$3,887,015</u>	
Overall Percentage Increase (Decrease)	<u>13.64%</u>	<u>9.57%</u>	
Revenue Increase on Gas Sales and Transportation	<u>\$5,517,160</u>	<u>\$3,864,381</u>	
Percentage on Gas Sales & Transportation	<u>13.59%</u>	<u>9.52%</u>	
Revenue Increase on Miscellaneous Operating Revenues	<u>\$22,634</u>	<u>\$22,634</u>	
Percentage on Misc. Operating Revenue	<u>20.17%</u>	<u>20.17%</u>	

OHIO VALLEY GAS CORP.
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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	\$3,317,434	\$3,317,434	\$0
Forfeited Discounts	0	0	0
Miscellaneous Operating Revenues	0	0	0
Transportation Revenues	(90,024)	(90,024)	0
Total Operating Revenues	3,227,410	3,227,410	0
Operating Expenses:			
Purchased Gas	3,816,675	3,816,675	0
Other Operation & Maintenance:			
Annualized Payroll	342,753	277,967	(64,786)
Payroll Taxes	28,134	22,206	(5,928)
Pipeline Safety Act Expenses	(35,971)	(35,971)	0
Liability Insurance	(6,627)	(6,627)	0
Postage	(4,316)	(4,316)	0
Rate Case Expenses	39,223	39,223	0
Group Insurance	(65,984)	(94,861)	(28,877)
Scholarships	4,214	4,214	0
Workers Compensation	(7,634)	(7,634)	0
Public Utility Fee	12,053	12,053	0
Taxes - General			
Utility Receipts Tax	45,183	28,106	(17,077)
Property Tax	(43,636)	(43,636)	0
Taxes - Income - State	(81,820)	(44,778)	37,042
Taxes - Income - Federal	(338,571)	(273,421)	65,150
Provision for Deferred Fed. Inc. Tax	0	(30,414)	(30,414)
Depreciation			
Adj. for Plant Additions	30,896	30,896	0
Depr. Rate Change	100,969	(0)	(100,969)
Total Operating Expense Adjustments	3,835,541	3,689,682	(145,859)
Total Net Operating Income Adjustments	(\$608,131)	(\$462,272)	\$145,859

OHIO VALLEY GAS CORP.
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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 CORP.
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Balance Sheet as of September 30, 2006

ASSETS

Utility Plant:	
Utility Plant In Service	\$52,367,323
Less: Accumulated Depreciation	<u>(23,442,150)</u>
Net Utility Plant In Service	28,925,173
Construction Work In Progress	<u>399,549</u>
Total Utility Plant	<u>29,324,722</u>
Other Property and Investments	
Non-Utility Property	928,695
Investments in Associated Companies	<u>4,346,363</u>
Total Other Property and Investments	<u>5,275,058</u>
Current and Accrued Assets:	
Cash	1,599,267
Special Deposits	624
Working Funds	23,846
Temporary Cash Investments	1,000,000
Notes Receivable	1,132
Accounts Receivable	(65,405)
Other Accounts Receivable	285,693
Accumulated Provision for Uncollected Accounts	(185,743)
Accounts Receivable from Associated Companies	124,882
Fuel Stock	213,465
Plant Materials and Operating Supplies	770,176
Stores Expense	141,643
Gas Stored Underground - Current	3,779,994
Prepayments	263,456
Accrued Utility Revenue	441,124
Interest & Dividends Receivable	<u>(815)</u>
Total Current Assets	<u>8,393,339</u>
Miscellaneous Deferred Debits:	<u>41,293</u>
Total Assets	<u>\$43,034,412</u>

OHIO VALLEY GAS CORP.
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Balance Sheet as of September 30, 2006

LIABILITIES AND STOCKHOLDERS EQUITY

Stockholders Equity:	
Common Stock	\$23,117,015
Treasury Stock	(\$1,947,077)
Paid In Capital	24,438
Unappropriated Retained Earnings	8,544,531
Retained Earnings of Subsidiary	<u>346,363</u>
 Total Stockholders Equity	 <u>30,085,270</u>
 Long Term Debt	 <u>0</u>
 Current & Accrued Liabilities:	
Notes Payable	2,000,000
Accounts Payable	2,409,076
Accounts Payable to Associated Companies	2,419,968
Customer Deposits	2,371,153
Accrued Taxes	(226,809)
Accrued Interest	772,739
Tax Collections Payable	76,949
Miscellaneous Current & Accrued Liabilities	<u>686,709</u>
 Total Current & Accrued Liabilities	 <u>10,509,785</u>
 Deferred Credits:	
Customer Advances for Construction	262,582
Other Deferred Credits	<u>(2,363,061)</u>
 Total Deferred Credits	 <u>(2,100,479)</u>
 Contributions In Aid of Construction:	 <u>258,667</u>
 Accumulated Deferred Federal Income Taxes:	 <u>4,281,167</u>
 Total Liabilities and Stockholders Equity	 <u>\$43,034,412</u>

OHIO VALLEY GAS CORP.
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Income Statement For The Twelve Months Ended June 30, 2006

Operating Revenues

Gas Sales	\$36,717,411
Forfeited Discounts	138,638
Miscellaneous Operating Revenue	112,209
Transportation Revenues	<u>664,002</u>
Total Operating Revenues	<u>37,632,260</u>

Operating Expenses

Production	4,448
Purchased Gas	27,573,704
Transmission	176,659
Distribution	2,361,364
Customer Accounting	1,287,015
Administrative and General	2,615,164
Depreciation	1,384,285
Taxes - General	1,437,748
Taxes - Income - State	87,416
Taxes - Income - Federal	219,979
Provision for Deferred Federal Income Taxes	<u>30,414</u>
Total Operating Expenses	37,178,196

Net Utility Operating Income 454,064

Other Income and Deductions

Other Income - Net	66,653
Interest on Debt to Associated Companies	0
Other Interest	(138,116)
Miscellaneous Income Deductions	(12,349)
Allowance for Funds Used During Construction	<u>36,076</u>
Total Other Income and Deductions	<u>(47,736)</u>

Net Income \$406,328

OHIO VALLEY GAS CORP.
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Original Cost Rate Base at September 30, 2006

Utility Plant In Service at 9/30/06	\$52,575,814
Less: Contributions In Aid of Construction	(258,667)
Less: Customer Advances for Construction	(262,582)
Less: Accumulated Depreciation	<u>(23,350,089)</u>
Net Utility Plant In Service	28,704,476
Add:	
Materials and Supplies Inventory (13 month average 9/05 - 9/06)	1,068,576
Stored Gas (13 month average 9/05 - 9/06)	2,572,801
Working Capital (Lead/Lag Study)	<u>(96,628)</u>
Total Original Cost Rate Base	<u><u>\$32,249,225</u></u>

OHIO VALLEY GAS CORP.
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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	\$36,717,411	\$3,317,434	Pet.	\$40,034,845	\$3,809,761	7-1	\$43,844,606
Forfeited Discounts	138,638			138,638			138,638
Miscellaneous Operating Revenues	112,209			112,209	22,634	Pet.	134,843
Transportation Revenues	664,002	(90,024)		573,978	54,620	7-1	628,598
Total Operating Revenues	37,632,260	3,227,410		40,859,670	3,887,015		44,746,685
<u>Operating Expenses</u>							
Purchased Gas	27,573,704	3,816,675	Pet.	31,390,379			31,390,379
Other Operation & Maintenance:	6,444,650			6,650,904			6,655,032
Annualized Payroll		277,967	6-1				
Payroll Taxes		22,206	6-2				
Pipeline Safety Act Expenses		(35,971)	Pet.				
Liability Insurance		(6,627)	Pet.				
Postage		(4,316)	Pet.				
Rate Case Expenses		39,223	Pet.				
Group Insurance		(94,861)	6-3				
Scholarships		4,214	Pet.				
Workers Compensation		(7,634)	Pet.				
Public Utility Fee		12,053	Pet.		4,128	7-2	
Taxes - General	1,437,748			1,422,218			1,476,637
Utility Receipts Tax		28,106	6-5		54,418	7-3	
Property Tax		(43,636)	Pet.				
Taxes - Income - State	87,416	(44,778)	6-6	42,638	330,045	7-4	372,683
Taxes - Income - Federal	219,979	(273,421)	6-6	(53,442)	1,189,464	7-5	1,136,022
Provision for Deferred Inc. Tax	30,414	(30,414)	OUCC	0			0
Depreciation	1,384,285			1,415,181			1,415,181
Adj. for Plant Additions		30,896	Pet.				
Depr. Rate Change		(0)	6-4				
Total Operating Expenses	37,178,196	3,689,682		40,867,878	1,578,056		42,445,934
Net Operating Income	\$454,064	(\$462,272)		(\$8,208)	\$2,308,959		\$2,300,751

Federal Tax Proof:

Net Operating Income	\$2,300,751
Add: Federal Income Tax	1,136,022
Add: Non-Deductible Meals Expense	18,856
Less: Interest Expense	<u>(114,389)</u>
Federal Taxable Income	3,341,240
Tax Rate	<u>34.00%</u>
Gross Federal Income Tax	1,136,022
Less: Investment Tax Credit	<u>0</u>
Pro Forma Federal Income Tax	<u>\$1,136,022</u>

State Tax Proof:

Federal Taxable Income	\$3,341,240
Add: State Income Tax	372,683
Add: Utility Receipts Tax	625,373
Add: Ohio Excise Tax	<u>45,215</u>
State Taxable Income	4,384,511
Tax Rate	<u>8.50%</u>
Pro Forma State Income Tax	<u>\$372,683</u>

Utility Receipts Tax Proof:

Total Operating Revenues	\$44,746,685
Less: Wholesale Customer Receipts	0
Less: Exemption	(1,000)
Less: Pro Forma Bad Debt	<u>(76,211)</u>
Taxable Gross Receipts	44,669,474
Tax Rate	<u>1.40%</u>
Pro Forma Utility Receipts Tax	<u>\$625,373</u>

OHIO VALLEY GAS CORP.
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Adjustments

(1)

Payroll

Payroll Adjustment per Petitioner's SMK-3 Page 7	\$345,726
Less: Exclusion of Allocation to Sales Promotion (per Petitioner)	<u>(2,973)</u>
Petitioner's Net Payroll Adjustment	342,753
OUCC's Adjustment for Retiree per Exhibit GAF-1	<u>(64,786)</u>
Adjustment - Increase/(Decrease)	<u><u>\$277,967</u></u>

(2)

Payroll Taxes

Payroll Tax Adjustment per Petitioner's SMK-3 Page 8	\$28,134
OUCC's Adjustment for Retiree per Exhibit GAF-1	<u>(5,928)</u>
Adjustment - Increase/(Decrease)	<u><u>\$22,206</u></u>

(3)

Group Insurance Adjustment

Group Insurance Adjustment per Petitioner's SMK-3 Page 13	(\$65,984)
Incremental OUCC Adjustment per Exhibit GAF-2	<u>(28,877)</u>
Adjustment - Increase/(Decrease)	<u><u>(\$94,861)</u></u>

(4)

Depreciation

Office Equipment per Petitioner's SMK-3 Page 16A	\$780,540
Communication Equipment per Petitioner's SMK-3 Page 16A	641,554
Total Office Furniture & Equipment and Communications Equipment at 6/30/06	<u>\$1,422,094</u>
Depreciation Expense at the Commission Approved 2.9% Composite Rate	\$41,241
Less: Pro Forma Depreciation Expense at 2.9%	<u>(41,241)</u>
Adjustment - Increase/(Decrease)	<u><u>(\$0)</u></u>

OHIO VALLEY GAS CORP.
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Adjustments

(5)

Indiana Utility Gross Receipts Tax

Gross Receipts	\$40,859,670	
Less: Exemption	(1,000)	
Less: Pro Forma Bad Debts	<u>(76,211)</u>	
Utility Gross Receipts Subject to Gross Receipts Tax	40,782,459	
Utility Gross Receipts Tax Rate	<u>1.40%</u>	
Pro Forma Utility Gross Receipts Tax at Present Rates	570,954	
Less: Utility Receipts Tax Per Books at 6/30/06	<u>(542,848)</u>	
Utility Gross Receipts Tax Adjustment - Increase/(Decrease)		<u>28,106</u>

(6)

State and Federal Income Tax

	Federal <u>Income Tax</u>	State <u>Income Tax</u>
Pro Forma Present Rate Operating Revenue	\$40,859,670	\$40,859,670
Less: Operations and Maintenance	(38,041,283)	(38,041,283)
Depreciation	(1,415,181)	(1,415,181)
Taxes Other Than Income	(1,422,218)	(851,264)
State Income Tax	(42,638)	
Interest Expense	(114,389)	(114,389)
Add Back:		
Ohio Excise Tax		45,215
Non-Deductible Meals Expense	<u>18,856</u>	<u>18,856</u>
Taxable Income	(157,183)	501,624
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		42,638
Pro Forma Federal Income Tax Expense	(53,442)	
Less: Test Year Expense	<u>219,979</u>	<u>87,416</u>
Adjustment - Increase/(Decrease)	<u>(\$273,421)</u>	<u>(\$44,778)</u>

OHIO VALLEY GAS CORP.
CAUSE NO. 43209

Pro Forma Proposed Adjustments

(1)

Proposed Rate Increase

Pro Forma Present Rate Sales	\$40,608,823
Times: Rate Increase	<u>9.52%</u>
Adjustment - Increase	<u>\$3,864,381</u>

(2)

Proposed IURC Fee

Proposed Rate Increase	\$3,887,015
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>0.1062%</u>
Adjustment - Increase	<u>\$4,128</u>

(3)

Proposed Utility Gross Receipts Tax

Proposed Rate Increase	\$3,887,015
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>1.40%</u>
Adjustment - Increase	<u>\$54,418</u>

(4)

Proposed Adjusted Gross Income Tax

Proposed Rate Increase	\$3,887,015
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>8.49%</u>
Adjustment - Increase	<u>\$330,045</u>

(5)

Proposed Federal Income Tax

Proposed Rate Increase	\$3,887,015
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>30.60%</u>
Adjustment - Increase	<u>\$1,189,464</u>

OHIO VALLEY GAS CORP.
CAUSE NO. 43209

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	\$30,085,270	80.21%	8.500%	6.82%
Long Term Debt	0	0.00%	0.000%	0.00%
Customer Deposits	2,371,153	6.32%	5.000%	0.32%
Accrued Interest	768,702	2.05%	0.000%	0.00%
Deferred Taxes	4,281,167	11.41%	0.000%	0.00%
Total	<u>\$37,506,292</u>	<u>100.00%</u>		<u>7.13%</u>

