STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company, Docket No. 23-0068

The Peoples Gas Light and Coke Company (consol.)

Proposed general increase in rates and revisions Docket No. 23-0069

to service classifications, riders and terms and (Rehearing)
conditions of service.

Direct Testimony Of
Bill McAleb, Jim Crowley, and Jeremy Walker

AG Gas Technical Panel

Submitted on the behalf of
The People of the State of Illinois

AG Exhibit 10.00

March 5, 2024
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I. Introduction and Background

Q. PLEASE STATE YOUR NAMES AND INTRODUCE THE GAS TECHNICAL PANEL.

A. The Gas Technical Panel (the “Panel”) is comprised of Bill McAleb, Jim Crowley, and Jeremy Walker. Bill McAleb is CEO & President of Rod Walker & Associates (“RWA”), a Management Consultancy and Technical Advisory firm based near Atlanta, GA. Jim Crowley is an Associate at RWA, and Jeremy Walker is the COO of RWA.

Q. PLEASE SUMMARIZE THE PANEL’S EXPERIENCE.

A. Bill McAleb brings over 40 years of oil, gas, power and energy industry business knowledge and experience. He focuses on advisory and expert witness activities and is a recognized expert in process/profitability innovation and transformation, infrastructure taxation and royalty, capital project oversight, analysis, and evaluation of capital programs, regulatory policy, and utility prudence determinations.

Mr. McAleb has extensive experience relating to utility infrastructure, system and pipeline design, construction, and operations. Moreover, he is experienced in the development and review of infrastructure replacement programs necessary to address utility and pipeline system upgrades and aging leak prone pipe from his work in industry and consulting associated with due diligence reviews and expert witness work.

His fundamental understanding of key financial metrics, industry drivers, and regulatory insight affords him the ability to render and deliver clear line-of-sight advisory and counsel. His practice emphasis encompasses the delivery of reliable advisory services through innovative and exploitive strategies and an in-depth understanding of financial cause and effect metrics related to the energy utility industry. Mr. McAleb has sponsored
testimony in a variety of forums on issues related to operational and decision prudence, energy asset value, infrastructure valuation and operations, construction, and financial forensics.

Jim Crowley has over 30 years of experience in the natural gas industry with more than 20 years as Manager of the Gas, Meter and Safety Departments at Easton Utilities, a municipal natural gas utility in Maryland. His responsibilities and experience span from gas procurement, federal, state, and local regulatory code compliance, budgeting, system planning and design, gas, electric, and water metering systems, and OSHA training and safety. He served several terms on the Utilities Service Protection Center of Delmarva Board, the Maryland Gas Operators Advisory Committee, and was an active member on many American Public Gas Association committees. Mr. Crowley, through his industry tenure, engineered and managed pipeline replacement programs and oversaw safety, reliability, compliance, and general operations at a combination utility.

Jeremy Walker is an expert in the analysis of gas engineering and operations issues in regulated natural gas utilities and has gained extensive knowledge and familiarity with the natural gas regulatory process through his work serving as lead for RWA in more than 40 regulatory proceedings in the states of Arkansas, California, Colorado, Delaware, Rhode Island, Illinois, Massachusetts, Maryland, New Jersey, and the District of Columbia. For these proceedings, Jeremy sponsored or supported expert analysis and testimony regarding various gas engineering, operations, integrity management and capital and O&M spend for RWA’s work on rate cases, large project prudence reviews, infrastructure and climate programs/plans, and other similar regulatory proceedings. An account of our experience is attached as AG Exhibit 10.01.
Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. We are submitting this testimony on behalf of the People of the State of Illinois (the “People”), represented by the Office of the Illinois Attorney General (“AG”).

Q. HAVE MEMBERS OF THE PANEL EVER TESTIFIED BEFORE A PUBLIC UTILITY COMMISSION?

A. Yes, as detailed in AG Ex. 10.01, we have submitted or supported testimony before various state utility commissions and similar bodies including:

- The Regulatory Commission of Alaska;
- The Rhode Island Division of Public Utilities and Carriers;
- The California Public Utilities Commission;
- The New Jersey Board of Public Utilities;
- The Illinois Commerce Commission;
- The Arkansas Public Service Commission;
- The Delaware Public Service Commission;
- The Maryland Public Service Commission;
- The Massachusetts Department of Public Utilities; and
- The District of Columbia Public Service Commission.

Q. HAS THE PANEL PREVIOUSLY FILED TESTIMONY BEFORE THE ILLINOIS COMMERCE COMMISSION IN THIS DOCKET?

A. No. However, the firm submitted the Direct and Rebuttal Testimony and Exhibits of Rod Walker, which were admitted in the rate case as AG Exhibits 3.00–3.18 and AG Exhibits 7.00–7.03.
Q. HAVE YOU PREPARED ANY ATTACHMENTS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. The Panel has prepared various supporting documents contained in AG Ex. 10.01 through AG Ex. 10.13 as identified below.

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Table 1: List of Exhibits

Q. WHAT IS THE PURPOSE OF THIS REHEARING?

A. On January 6, 2023, the Peoples Gas Light and Coke Company (“PGL” or the “Company”) filed a petition with the Illinois Commerce Commission (the “Commission”) for a general increase in gas service rates (“Petition”) which the Commission docketed as Docket No. 23-0069. Following a lengthy process of discovery, testimony, rebuttal, surrebuttal, hearings, and briefs, the Commission issued its Final Order on November 16, 2023. This Order, among other things, ordered the initiation of an investigation into PGL’s System Modernization Program (“SMP”) and an interim pause of the SMP until the investigation is complete.

On December 15, 2023, PGL filed its application for rehearing of certain issues within the Order – primarily citing the costs of certain types of work that it believes should be allowed in base rates, regardless of the upcoming SMP investigation and the
SMP pause. On January 3, 2024, the Commission granted PGL’s application with a limited scope. The Commission ordered that PGL’s rehearing “will focus exclusively on 2023 SMP work-in-progress and emergency work, specifically addressing: 1) the extent to which works in progress must be permitted to continue in 2024 [and] 2) whether and to what extent emergency work is part of SMP.”¹ The Commission also pointed out that PGL’s rehearing petition lacked “a statement of proposed additional evidence, if any, and an explanation of why such evidence was not previously adduced,” as required by the Commission’s rules.² Despite these deficiencies, the Commission permitted this limited scope rehearing to determine “whether, and to what extent, [PGL’s] revenue requirement should increase” to cover ongoing and emergency service work that is “necessary to avoid unintended safety and reliability impacts and service interruptions during the SMP pause.”³

The Commission gave PGL specific instructions to provide itemized and detailed information about 2023 SMP works-in-progress and emergency work.⁴ The Commission further ordered that the evidence provided by the Company “should identify the specific safety and reliability objectives and supporting information that informed particular planning and investment decisions.”⁵

¹ Ill. Com. Comm’n, Regular Open Meeting, Tr. at 14:6–16 (Jan. 3, 2024).
² Id. at 14:17–21.
³ Id. at 15:1–15.
⁴ Id. at 15:16–16:22.
⁵ Id. at 17:1–9.
Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AND HOW IS IT ORGANIZED?

A. In this testimony, the Panel will assess the reasonableness of PGL’s rehearing proposal in light of the Commission’s Order, the upcoming SMP Investigation, and various integrity management concerns raised by the Company. Specifically, the Panel’s testimony will address the following major concerns:

II. PGL has not adequately identified critical work.

III. PGL seeks approval of capital investments without providing proper support.

IV. PGL’s Application for Rehearing reinforces the need for an SMP Investigation.

V. PGL failed to provide the basic information necessary for the Commission to assess the prudence or need for a majority of the projects being proposed that have changed significantly in cost, scope, or both, or were not included in the original rate case. PGL’s failure to provide this information is particularly troublesome, given the short rehearing timeline, which limits the Commission, ICC Staff, and Intervenor’s review of PGL’s proposals to less than two months.6

Q. WAS THE FOLLOWING TESTIMONY PREPARED BY THE PANEL OR UNDER THE PANEL’S SUPERVISION AND CONTROL?

A. Yes.

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6 PLG filed its direct testimony on February 6, 2024, and the evidentiary hearing is scheduled for March 21, 2024.
Q. PLEASE SUMMARIZE THE PANEL’S CONCLUSIONS AND RECOMMENDATIONS.

A. Conclusions:

The Panel’s analysis has resulted in the following conclusions:

1. In its Direct Testimony and Exhibits on Rehearing PGL has shown that it does not have clear boundaries between the various types of work that it proposes. The convoluted ambiguity surrounding project classification and how the various types of work address certain system conditions or threats serves to obscure the nature of PGL’s request in this Rehearing.

2. PGL has not demonstrated that it is able to accurately and fairly categorize emergency work, notwithstanding the clear and generally accepted definition of emergency work and its reactionary nature.

3. In its rate case filing, PGL identified 134 System Improvement, Public Improvement, Neighborhood, and High-Pressure projects. Of those 134, 56 were included in its filing on Rehearing. Much of the work and associated costs that PGL requests the Commission approve in Rehearing were not included in the original rate case filing, are insufficiently supported, and are beyond the scope of reasonable changes to the Company’s original rate case filing based on changing conditions.

4. The work PGL described in its testimony and exhibits on Rehearing that was included in the original rate case filing has changed significantly in scope, cost, timing, or all the above, and any variance analysis done in the base rate case proceeding is rendered moot given these changes.
5. PGL’s proposed projects are plagued with many of the same (and more) issues that gave rise to the SMP Investigation in the first place.

6. Ongoing concerns with capital cost management, project delays, double decking, projects selection/risk ranking, and public improvement projects lead the Panel to conclude that the Commission was correct in its Final Order pausing SMP recovery, and that the Company’s Application for Rehearing lacks sufficient detail demonstrating a material improvement regarding the issues giving rise to the SMP investigation.

7. If PGL concludes that there are certain projects which constitute emergency work and/or address imminent safety/reliability concerns, then it should address them in the interest of safety and reliability. Our review of the projects PGL identified does not convince us that they should all be approved and explicitly included in rate base now. However, we note that the identified emergency projects are relatively small, and that the Company should be able to fund ongoing work between rate cases with the increased resources it has after the increase the ICC granted it last November.

Recommendations:

1. The Panel recommends that the Commission disallow recovery of all requested projects pending the upcoming SMP Investigation except for a reasonable budget to address true emergency work.

2. The Panel has calculated a reasonable budget of $28,515,829 based on historical emergency work spend. This budget does not account for certain projects within the

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7 Historical data from PGL Ex. 50.00 at 14:264.
Short-cycle category that are questionably urgent, nor does it account for PGL’s historical over budget variance of 53% per year for each of the last 4 years. As such, the Panel finds this recommendation to be generous for addressing potential emergency work in 2024.

II. PGL Has Not Adequately Identified Critical Work

Q. WHAT IS THE PANEL’S UNDERSTANDING OF THE PRIMARY REASON FOR PGL’S APPLICATION FOR REHEARING?

A. The Panel understands PGL’S Application for Rehearing to be primarily driven by a concern that the Commission should increase its revenues to add certain types of SMP work that should be continued regardless of the status of the SMP or the Commission’s ordered pause. The apparent purpose of PGL’s request is to identify projects that it claims it must perform or complete to mitigate critical threats to the distribution system and the public. Presumably, therefore, rehearing should be limited to those projects that address emergency conditions and maintain public and system safety against imminent threat(s). This presumption is consistent with the Commission's own directive that PGL clarify the extent to which works in progress must be permitted to continue and whether and to what extent emergency work is part of SMP.

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8 PGL Ex. 50.00 at 14:264.
9 Id. at 3:44-50.
Q. WHAT TYPES OF PROJECTS DID THE PANEL EXPECT TO FIND IN PGL’S TESTIMONY AND EXHIBITS?

A. There are two primary types of projects that one would expect to find in PGL’s testimony and exhibits on Rehearing:

1. Reactive projects addressing emergency conditions such as leaks, overpressurization concerns, excavation damages, etc.

2. Proactive projects addressing imminent safety or reliability concerns of a nature that cannot be deferred even a few months until the SMP investigation is resolved, such as partially finished projects which present unsafe conditions to the public or the distribution system.

Q. HOW WOULD YOU EXPECT THOSE TWO CATEGORIES TO BE DEFINED AND DELINEATED?

A. In the Panel’s experience, both as executive and managerial employees of gas distribution utilities and as expert witnesses in regulatory proceedings across the country, the two types of projects described above are most typically defined and delineated as follows:

1. An emergency response projects budget will be based on the average of 3-5 years of historical actual spend with a reasonable adjustment for inflation. Depending on the utility and recent fluctuations in spend due to factors such as extraordinary natural disasters, or perhaps, significant reductions in excavation damage, this historical average may be adjusted to accommodate those factors. This budget will be spent only on those projects that are reactively addressing emergencies arising from factors outside of the utility’s control.
A utility presenting projects addressing imminent safety or reliability concerns will typically identify the imminent threat(s) being addressed, identify risk ranking data and thresholds used to select critical projects versus projects that are able to be deferred to a later date.

Q. WHAT TYPES OF WORK HAS PGL INCLUDED IN ITS TESTIMONY AND EXHIBITS ON REHEARING?

A. In contrast to what was expected, PGL represents that there are two categories of work that it seeks “permission to continue.”\(^\text{10}\) Namely, two categories of work it titles as Emergency, Safety, and Reliability (“ESR”) work and Work in Progress (“WIP”).\(^\text{11}\) PGL then states that the only difference between these two categories is the start date of the project (pre- or post-12/31/23).

Within those two categories, PGL goes on to list 7 types of work (and implies the existence of an 8th type). These types of work are as follows:

- 1) Emergency replacement of leaking pipe segments (Short-cycle work),
- 2) Safety-related projects,
- 3) Reliability-related projects,
- 4) System improvement projects,
- 5) Public improvement projects
- 6) High-pressure projects,

\(^{10}\) PGL would later clarify that it is not seeking permission to continue, but rather permission to recover the costs of this work (\textit{See} Exhibit AG-10.02, PGL’s Response to DR AG-18.01, b).

\(^{11}\) PGL Ex. 50.00 at 3:44-50
- 7) Work in progress, (which itself includes projects from most of the
aforementioned categories), and
- 8) Meter move projects

Q. WHAT IS THE PANEL’S PERSPECTIVE ON THIS WORK CLASSIFICATION?

A. The Panel has numerous concerns with PGL’s presentation and classification of
work that it proposes to continue.

With few exceptions, the types of work identified in the ESR and WIP
classifications do not represent activities that are entirely in support of addressing
emergency conditions and/or imminent safety or reliability concerns. Indeed, the projects
in the ESR and WIP buckets have no basis for being delineated in this way aside from the
2023/2024 split and do not represent activities that can be split in the way PGL attempts.

Further, the two categories presented by PGL contain a large amount of overlap
rendering the distinction meaningless. For example, the WIP category contains certain
reliability projects which overlap with the “R” in ESR. Some of the reliability projects
are also identified as a System Improvement project and further classified as Work in
Progress. In addition, there are in-progress High-Pressure projects within PGL’s request
on Rehearing that are themselves designed for system improvement, which as defined by
PGL, are to address reliability problems.12

12 PGL Ex. 50.00 at 3:56-57
Q. CAN YOU DEMONSTRATE THE WAYS IN WHICH CATEGORIES IN PGL’S TESTIMONY AND EXHIBITS ON REHEARING OVERLAP AND/OR CONFLICT?

Yes. The simplest way to demonstrate this is to ask the question:

What defines a project that addresses emergency conditions or imminent safety or reliability concerns?

Given that emergency, reliability, and safety work is one of PGL’s two proposed primary categorizations, what constitutes an ESR project that PGL believes merits Commission approval on rehearing to fund and continue should be readily apparent and should be easily delineated from other work. In the case of PGL’s testimony and exhibits on Rehearing, none of those are true. In fact, “Reliability” appears to encompass—or perhaps be encompassed by—the System Improvement category. System Improvement itself, rather than being elective projects to preemptively address potential reliability concerns down the road (as the term is typically used in the industry) appears to include reactive projects and includes work such as pipeline replacement due to identification by PGL’s Uniform Main Ranking Index (“UMRI”). PGL itself even states that “events that are addressed through system improvement projects are similar to those addressed through emergency projects.”

To further complicate things, the Emergency work (Short-cycle) contains projects that are both reactive to “emergencies” such as leaks and proactive for pressure/supply

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13 AG Ex. 10.13, PGL Response to DR COC-9.71.
improvement or integrity management projects as a result of PGL’s UMRI risk-ranking process.

The convoluted ambiguity surrounding project classification and how the various types of work address certain system conditions or threats serves to obscure the nature of PGL’s request in its Application for Rehearing. Even more importantly, this ambiguity also makes the Company’s testimony on Rehearing non-responsive to the Commission’s directive to identify whether and to what extent emergency work is part of SMP.

Q. WAS THE PANEL ABLE TO IDENTIFY ANY PROJECTS THAT COULD POSSIBLY ADDRESS EMERGENCY CONDITIONS?

A. Yes; but as noted above, the Company’s opaque presentation of the data does not allow for a comprehensive delineation of which projects specifically address each type of work.

PGL provided a project list of expected specific “emergency” projects (the Short-cycle project list) which most closely represents emergency-type work. However, the project list is riddled with ambiguities and even the basic data provided raises more questions than it answers. For example:

- Short Cycle projects MX4799656, MX4737635, and MX4826359 are driven by Grade 3 leaks on the system\(^{14}\) which are, by definition, non-hazardous at the time of detection and can be reasonably expected to remain non-hazardous\(^ {15}\). When asked about these three projects, PGL confirmed that they were not to address

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\(^{14}\) PGL Ex. 50.01, Schedule 1.
\(^ {15}\) AG Ex. 10.03, GPTC, Below Ground Leak Classification and Action Table.
emergency conditions, but to prevent future emergency conditions.\textsuperscript{16} When asked
how long these Grade 3 leaks have been present, PGL declined to provide this
data.\textsuperscript{17} However, elsewhere, PGL describes Short Cycle work as to address
“urgent and unplanned events.”\textsuperscript{18} Regulations that require immediate mitigation
of unsafe pipe reference “hazardous” leaks.\textsuperscript{19}

\begin{itemize}
\item A further 25 Short Cycle projects (56\% of all short-cycle projects) are driven by
Grade 2 leaks which are leaks that are recognized as being non-hazardous at the
time of detection but justify scheduled repair within 15 months based on probable
future hazard.\textsuperscript{20} At face value, it is unclear how each of these projects justifies the
“emergency” status given it by PGL. When asked to describe how Grade 2 leaks
are driving emergency-level work, PGL simply provided a definition of a Grade 2
leak and stated that each leak must be repaired or cleared no later than 15 months
from the date the leak was reported.\textsuperscript{21} No dates of leak discovery were provided.
\item Short Cycle project MX4852233 is a new pipeline installation project (not a
replacement or repair) driven by “Poor Supply” with no further data provided.\textsuperscript{22}
At face value, it is unclear how this project addresses emergency conditions.
\end{itemize}

\textsuperscript{16} AG Ex. 10.04, PGL’s Response to DR COC-9.66.
\textsuperscript{17} AG Ex. 10.05 - PGL’s Response to DR AG-18.04, c.
\textsuperscript{18} AG Ex. 10.12, PGL’s Response to DR PIRG-9.13.
\textsuperscript{19} 49 CFR 192.703, (c).
\textsuperscript{20} AG Ex. 10.03, GPTC, Below Ground Leak Classification and Action Table.
\textsuperscript{21} AG Ex. 10.05, PGL Response to AG-18.04, d.
\textsuperscript{22} PGL Ex. 50.01, Schedule 1.
Short Cycle project MX4690169 appears to be the downsizing of a 24” pipe to a 12” pipe for 500 feet, yet has the driver listed as a Grade 2 leak. No reasons for this large scope for a leak repair were provided.

Q. WHAT EMERGENCY SHORT-CYCLE PROJECTS APPEAR REASONABLE?

A. Of the 45 Short Cycle projects presented, it appears that the following projects represent true emergency work and therefore are reasonable:

- Project MX4854962 which is driven by a Grade 1 leak condition.

- The 25 emergency projects driven by Grade 2 leaks may have reached the time period or conditions in which they must be remediated as soon as possible. However, the Company did not provide supporting data to allow for an assessment of which projects are emergency work, so it is impossible to identify them specifically.

- The 9 projects driven by a need for coupling or corrosion remediation may exhibit conditions that require immediate remediation. However, no detail was provided on these, so it is impossible to identify them specifically.

In sum, there is one project that clearly represents emergency work and an additional 34 that may. The projects to address Grade 3 leaks, resolve third party coordination concerns, and bolster system pressure or supply concerns do not appear to represent emergency work.

23 Id.
Q. WERE THERE ANY SPECIFIC PROJECTS TO ADDRESS IMMINENT SAFETY CONCERNS THAT APPEARED REASONABLE?

A. No. As discussed at length above, no data was provided showing how PGL determined which projects it believes must continue for the purposes of addressing imminent safety threats to its system. Rather than identifying the quantitative and/or qualitative means by which each project was identified as being necessary to pursue or complete now, all the Company has provided are generalized statements regarding the necessity of pipeline replacement, integrity management and safety-related projects as a whole, but nothing describing the thresholds by which certain projects were selected.

As a utility performs integrity management as required by Federal regulations, it will inevitably identify certain threats that must be remediated immediately. The Panel understands that threats such as cast or ductile iron pipes represent a time-sensitive concern that requires ongoing remediation. However, as projects are selected, there should be risk ranking data and data on the segment’s threat level to support the decisions about where, when, and the extent of the appropriate remediation, and the urgency of the threats. Not only was that data not provided, but the very process by which those projects are selected is currently in question via the SMP investigation. As such, PGL’s request for approval of these projects would circumvent the intent of the SMP Investigation.

Q. GIVEN THE ABOVE ISSUES WITH IDENTIFYING SPECIFIC PROJECTS, HOW DOES THE PANEL RECOMMEND THAT PGL MANAGE ONGOING INTEGRITY MANAGEMENT CONCERNS?

A. The issue at stake in this rehearing is one of cost recovery. If PGL believes that there are certain projects which constitute emergency work and/or address imminent
safety/reliability concerns, then it has an obligation to pursue those projects, and
substantiate them when called upon to do so.\textsuperscript{24} PGL has failed on this latter point in both
the rate case filings and its testimony on Rehearing. PGL does not have to be
preemptively guaranteed recovery of work in order to proceed. Rather, it must do so
regardless of cost recovery. By requesting the Commission pre-approve recovery here,
PGL would preempt a prudence review of its capital spending. Unlike in the QIP, where a
later prudence review is possible, there would be none done here. The Company’s
position that a temporary and short-term pause in guaranteed recovery will present it with
immediate challenges in delivering safe, reliable natural gas service to its customers in
the greater Chicago area is untenable. PGL may request cost recovery of work after the
SMP Investigation has concluded in its next rate case – at which point costs for prudent
projects may be recoverable in rates.

\textbf{Q. WHAT ARE THE PANEL’S CONCLUSIONS REGARDING THE TYPES OF
WORK PGL HAS PROPOSED BE RECOVERED IN ITS REHEARING FILING?}

\textbf{A. Our findings are as follows:}

Firstly, the Panel finds that PGL demonstrates in this Rehearing that it does not
have clear boundaries between the various types of work that it proposes.

Secondly, PGL has not demonstrated that, even within the relatively clear
boundaries of reactive emergency work, it is able to accurately describe work that is
generally accepted as responding to an emergency situation and to fairly categorize the
work as emergency or non-emergency.

\textsuperscript{24} This should not be construed as an endorsement of the prudence of any specific project or projects.
Finally, the Panel finds that PGL’s testimony on Rehearing is non-responsive to the Commission’s directive to clarify the extent to which works in progress must be permitted to continue and whether and to what extent emergency work is part of SMP.

III. PGL Seeks Approval of Capital Investments Without Providing Proper Support or Allowing a Reasonable Review

Q. WHAT CONCERNS DOES THE PANEL HAVE WITH PGL’S REQUEST FOR APPROVAL OF CERTAIN PROJECTS ON REHEARING?

A. The Panel has three primary concerns:

1. PGL has presented new projects that were not presented in the rate case;

2. For projects that were presented in the rate case, PGL has significantly increased the scope and costs for certain projects; and

3. PGL has not provided sufficient information in this rehearing for the Panel to assess the prudence of new projects.

Q. WHAT IS THE PANEL’S CONCERN WITH THE INTRODUCTION OF NEW PROJECTS?

A. This Application for Rehearing is a request for the Commission to revisit certain plant additions requested as part of its future test year (2024) in the rate case for approval despite the Commission’s ruling against them. By introducing new projects (new plant additions), PGL is circumventing the prudence review process in a rate case and requesting that the Commission rule on specific projects in a highly compressed timeline.
Q. WHAT NEW PROJECTS HAS PGL PRESENTED IN ITS REHEARING SCHEDULES?

A. To determine this, the Panel reviewed a revised list of projects that PGL provided in its revised response to discovery request AG-13.01 in August of 2023. This list is comprised of “all pipeline projects/partial projects included within this rate case.”

Using the project identifiers (sometimes called the P.O. Numbers) beginning with “MX-” the Panel performed a comparison of the data in PGL exhibits on Rehearing with that in the original project list. The result was that, of the project lists provided in PGL Exs. 50.01, 50.02, and 50.06, there were 59 new non-emergency projects that PGL did not identify or present to the Commission in this rate case for evaluation.

Q. DESCRIBE THE SCOPE OF THE CHANGES IN PROJECTS FROM THE ORIGNIAL RATE CASE FILING.

A. As summarized in the figure below, in its original rate case filing, PGL included 134 discrete projects. In its testimony on rehearing, PGL included 160 projects. Of those 160, 56 are from the original project list and 104 are newly introduced projects. Of the 104 newly introduced projects, 45 of these are to address short-cycle type work, 43 are newly added Work in Progress projects that started on or before 12/31/23, and 16 are newly added System Improvement or Public Improvement projects that will start in 2024.

As identified in yellow/♦ in the figure below, of the original 134 projects that the Commission asked PGL to filter down to only those critical to continue, only 56 remain

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25 Provided in response to AG-16.01.
26 AG Ex. 10.06, PGL Response to DR AG-13.01 REV, Attachment 1.
27 This number does not include any Short Cycle projects.
28 AG Ex. 10.07, PGL Projects Analysis Workpaper.
as identified in orange/●. Those 56 are subject to significant concerns regarding other changes to cost and scope resulting in no clear determination of prudence being possible.

Of the newly added projects (identified in red/■) in the figure below, most are out of scope of the Rehearing as defined by the Commission. Only the 45 Short Cycle projects may be in scope; however the panel continues to have concerns with the classification of emergency/Short Cycle projects as discussed earlier in our testimony.

![Figure 1: Project Breakdown](image-url)
Q. DID PGL PROVIDE SUFFICIENT DATA TO SUPPORT THE ADDITION OF THESE NEW PROJECTS?

A. No. When asked to simply identify the projects that were added in the Rehearing and explain why the projects were not included previously, PGL stated that “The fact that some projects are planned for 2024 that did not appear on a list generated in early 2023 is not unexpected. The Company constantly needs to adapt to field conditions that arise as its main in the ground deteriorates, construction delays arise, opportunities to coordinate construction efforts with third parties and realize efficiencies present themselves, or other circumstances change.”29 While the Panel agrees that there are various factors that can result in necessary adaptation to changing field and logistical conditions, these typically result in scope changes which would be reflected in change orders, not the large-scale addition of new projects. In this case, over half of all non-Short-Cycle projects in the Company’s Rehearing Application were added since the August 2023 list was provided to the Panel in AG-13.01REV.

Q. WAS THE PANEL ABLE TO DO ANY ANALYSIS ON THE NEW PROJECTS ADDED BY PGL IN THE REHEARING?

A. Despite the compressed timeline of this Rehearing, the Panel attempted to gather information on these new projects in order to determine whether they fit the type of work that may need to be continued such as ESR or WIP, and whether they were prudent investments overall.

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29 AG Ex. 10.09, PGL Response to DR AG-18.20.
In response to questions on these issues, PGL refused to provide sufficient data on the new projects – stating that work it presented in the rate case was out of scope for this rehearing and that it was best addressed in the SMP investigation in Docket 24-0081.30

While the Panel emphatically agrees that evaluation of approach and project selection does belong in the SMP investigation docket, PGL is nonetheless asserting that these expenses were improperly excluded as part of the 2024 future test year and is pursuing Commission approval for them now. Despite the Company’s objections on grounds of relevance, the data supporting those projects is relevant in this proceeding, as PGL seeks to increase rates to cover these specific projects.

The only data on the reasons that these new projects were added was provided in response to recent discovery – the contents of which are summarized below31:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Qty.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in construction schedule</td>
<td>38</td>
<td>64%</td>
</tr>
<tr>
<td>New Project as a result of 3rd Party32</td>
<td>11</td>
<td>19%</td>
</tr>
<tr>
<td>New Project as a result of field conditions</td>
<td>7</td>
<td>12%</td>
</tr>
<tr>
<td>New Project as a result of UMRI</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>59</td>
<td></td>
</tr>
</tbody>
</table>

*Table 2: New Project Drivers*

Despite PGL’s insistence that adding over half of its projects presented on Rehearing is typical and to be expected, it is not readily apparent why the above reasons would result in widespread delays that require 59 new non-emergency projects to be added.

Regardless of the specific reason for adding each project, adding this many new projects without sufficient supporting data in a rehearing that was granted to address

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30 AG Ex. 10.08, PGL Response to DR AG-18.06  
31 AG Ex. 10.09, PGL Response to DR AG-18.20, Attachment 1.  
32 Two projects that were accelerated to meet CDOT AR paving timelines were included in this category.
ongoing projects that should have been included in the 2024 test year, makes any meaningful review or analysis difficult.

Given the limited data, the Panel is similarly limited in its ability to make prudence determinations on the dozens of projects that PGL wishes to continue and new projects it wishes to add. In lieu of necessary data, the Panel makes a series of observations regarding the new projects proposed by PGL that raise serious concerns of both the prudence and the urgency of these projects:

- Project MX3920914 involves pipeline replacement for “System Improvement.”

  The Company proposes to retire 386 feet of main and install 5,608 feet (or a 1,350% increase). PGL did not provide any reason for this asymmetry. When we asked PGL to explain this discrepancy, the Company said that this project is Phase 2 of a 4-phase project and that the majority of retirements happened in the other three phases (Phases 1, 3, and 4). Implementing Phase 2 of a four-phase project is not the same as finishing “work in progress.” Further, upon a cursory review, the Company’s answer is irrelevant and does not explain the increased footage for this Phase 2 project as summarized in the table below:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Retire</th>
<th>Install</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ph1</td>
<td>2,867</td>
<td>2,902</td>
<td>35</td>
</tr>
<tr>
<td>Ph2</td>
<td>386</td>
<td>5,608</td>
<td>5,222</td>
</tr>
<tr>
<td>Ph3</td>
<td>4,432</td>
<td>7,138</td>
<td>2,706</td>
</tr>
<tr>
<td>Ph4</td>
<td>4,074</td>
<td>4,890</td>
<td>816</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,759</strong></td>
<td><strong>20,538</strong></td>
<td><strong>8,779</strong></td>
</tr>
</tbody>
</table>

*Table 3: Install vs. Retired Footage Example*

33 AG Ex. 10.10, PGL Response to DR AG-18.17.
34 Id., Attachment 01.
PGL further states that the additional installation footage was necessary to “appropriately provide the area with the gas supply necessary” and that the project was driven by field-observed leaks.\textsuperscript{35} Unfortunately, these vague phrases may address the need for additional footage in general, but fail to provide any project specific information to justify the large discrepancy between retired and installed pipe. The Phase 2 discrepancy is so large that it requires more explanation.

- Project MX1351834, a pipeline replacement project was started on 6/23/2022, but was not included in the original rate case filing documents, including the August 2023 updated project list.\textsuperscript{36} When asked why this project does not appear on the list of all pipeline projects as requested in AG 13.01, the Company replied saying that AG 13.01 was based on the construction schedule as of January 2, 2023. This, of course, does not explain why the project was not on the Jan 2023 project list (6 months after construction start), or why a project started 20 months ago is still “WIP.”

- PGL Exhibit 50.06 presents a large number of projects, many of which are newly added. Of all projects in this exhibit, the total installed footage is approximately 167\% of the retired footage. The issue of double decking and when it is an appropriate or cost-effective method of pipeline installation would require much more time and data that the current Rehearing allows for.

- Construction on projects MX1350979, MX3915091, MX4240981, MX4197413, MX4543391, and MX4669277 totaling about $10 million in future investments

\textsuperscript{35} Id.
\textsuperscript{36} PGL Ex. 50.06, Schedule 1.
were started after the Commission’s Order pausing the SMP was issued on November 16, 2023. Nonetheless, PGL presents these as “Work in Progress” that it must complete, seemingly simply because of the work category and the start date.

Q. WHAT ARE YOUR CONCLUSIONS REGARDING THIS ISSUE?

A. The Panel has three conclusions regarding this issue.

1. Much of the work PGL requests that the Commission approve and include in increased rates was not included in the original rate case filing and is beyond the scope of reasonable changes to the Company’s original rate case filing based on changing conditions.

2. Much of the work PGL requests that the Commission approve and include in rates that was in the original rate case filing has changed in scope, cost, timing or all of the above, making any reasonableness or prudence finding done in the base rate case proceeding moot.

3. PGL’s proposed projects are plagued with many of the same (and more) issues that gave rise to the SMP Investigation in the first place, such as the significant discrepancy between the feet of pipe retired and installed.
IV. Evidence on Rehearing reinforces the need for an SMP Investigation

Q. IN WHAT WAYS DO THE COMPANY’S REHEARING TESTIMONY AND EXHIBITS REINFORCE THE NEED FOR THE SMP INVESTIGATION?

A. The Company’s request to pursue a selection of SMP projects highlights certain issues inherent in its capital investments under the SMP. PGL has attempted to create a false sense of urgency in which it urges the Commission to revise its Order and allow the recovery of a substantial portion of its 2024 capital investment budget despite the presence of the very issues that support a pause and review of the SMP.

Issues in the Rehearing filing continue to exist, including the following:

- **Capital cost management** – budgets have already increased from initial rate case documents as recent as August of 2023.

- **Project delays** – 64% of the new projects added in the rehearing filings are due to project delays.\(^{37}\)

- **Unsubstantiated double decking** – No analysis was provided to demonstrate that installing more main than is being retired is the only feasible or the most cost-effective option. Overall, 67% more footage is being installed than retired.\(^{38}\) This significant increase should be not be approved and added to rates as WIP, ESR, or otherwise in this Rehearing.

- **Opaque project selection/risk ranking** – the Company regularly uses undefined, generic words like “high” and “medium” to describe the risk

\(^{37}\) AG Ex. 10.08, PGL Response to DR AG-18.06.  
\(^{38}\) PGL Ex. 50.06.
ranking of projects. The process by which projects are chosen should be as objective as possible and specifically identify risk factors.

- **Public Improvement projects** – This type of project continues to have high costs\(^{39}\) despite claims that they will represent cost savings to customers.\(^{40}\)

Such issues lead the Panel to conclude that the Commission was correct in its original Order pausing SMP recovery. The Company has not provided materially more relevant and necessary information on Rehearing to support the requested additional cost recovery than it did in the rate case that gave rise to the SMP investigation in the first place.

V. **A Rate Case rehearing is not the appropriate venue for a review.**

Q. **WHAT ARE THE PANEL’S CONCERNS WITH PGL’S ATTEMPT TO UTILIZE A RATE CASE REHEARING FOR APPROVAL OF CAPITAL INVESTMENTS?**

A. As discussed previously, the Company has presented new projects and materially changed certain rate case projects for pre-approval for recovery – neither of which have sufficient support. However, this issue is secondary to the fact that this condensed time period does not allow for a thorough review of new capital investments and the fact that there is an imminent Investigation of the SMP.

\(^{39}\) AG Ex. 10.11, PGL Response to DR PIRG 9.07.

\(^{40}\) PGL Ex. 50.0 at 18-19, lines 348-352
The majority of the proposed work does not appear to rise to the standard of emergency work or to address imminent safety/reliability concerns.

Q. WHAT IS THE PANEL’S ULTIMATE RECOMMENDATION TO THE COMMISSION REGARDING ALL OF THE WORK PGL REQUESTS PRE-APPROVAL OF RECOVERY FOR?

A. The Panel recommends that the Commission disallow recovery of all projects pending the upcoming SMP Investigation except for a reasonable budget to address emergency work.

The Panel has calculated a reasonable budget of $28,515,829 based on historical emergency work spend\(^{41}\) as summarized in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Short Cycle Work Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020A</td>
<td>$28,240,181</td>
</tr>
<tr>
<td>2021A</td>
<td>$24,564,480</td>
</tr>
<tr>
<td>2022A</td>
<td>$33,701,891</td>
</tr>
<tr>
<td>2023A</td>
<td>$27,281,117</td>
</tr>
<tr>
<td>2024E</td>
<td>$28,515,829(^{42})</td>
</tr>
</tbody>
</table>

As earlier stated, this budget does not account for certain projects within the Short-cycle category that appear to not be reactive emergency work, nor does it account for PGL’s historical overbudget variance of 53% per year for each of the last 4 years.\(^{43}\) As such, the Panel finds this recommendation to be generous for addressing potential reactive emergency work in 2024.

\(^{41}\) Historical data from PGL Ex. 50.00 at 14:264.
\(^{42}\) 3-year historical average.
\(^{43}\) PGL Ex. 50.00 at 14:264.
Q. DOES THIS CONCLUDE THE PANEL’S TESTIMONY?

A. Yes.