

**REDACTED**  
**REBUTTAL TESTIMONY**

of

**Dianna Hathhorn**  
**Accountant**

**Accounting Department**  
**Financial Analysis Division**  
**Illinois Commerce Commission**

**Reconciliation of revenues collected under gas adjustment  
charges with actual costs prudently incurred**

**The Peoples Gas Light and Coke Company**

**Docket No. 01-0707**

**February 18, 2005**

NOTE: Redactions shown by gray shading, i.e. 

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Dianna Hathhorn. My business address is 527 East Capitol  
4 Avenue, Springfield, Illinois 62701.

5

6 Q. Have you previously filed testimony in this proceeding?

7 A. Yes, my additional direct / rebuttal testimony is ICC Staff Exhibit 9.00.

8

9 Q. What is the purpose of this testimony?

10 A. I am presenting my position based upon The Peoples Gas Light and Coke  
11 Company's ("Peoples" or "Peoples Gas" or "Company") additional rebuttal  
12 testimony. I also address Ms. Decker's enovate income adjustment.  
13 (City-CUB Ex. 1.0)

14

15 Refinery Gas Purchases Adjustment

16 Q. Please summarize the reason for the Refinery Gas Purchases  
17 Adjustment.

18 A. As discussed in ICC Staff Exhibit 9.00, pp. 11-14, prior to FY2001,  
19 Peoples purchased refinery fuel gas ("RFG") from Citgo at [REDACTED] of the  
20 average city gate price, pursuant to a contract ("the Agreement") with PDV  
21 Midwest Refining LLC ("PDVMR"), formerly known as UNO-VEN  
22 Company, and also known as "Citgo". Beginning in FY2001, the

23 Agreement with Peoples Gas ended, and instead PERC, Peoples Gas'  
24 affiliate, purchased the RFG from Citgo at the same terms, for later re-sale  
25 to Peoples Gas. This resulted in an unnecessary increase in gas cost to  
26 PGA ratepayers.

27

28 Q. In response, Mr. Wear states that Peoples' purchased RFG during the  
29 reconciliation period from Enron MW, LLC ("EMW"). (Respondent's Ex. L,  
30 Additional Rebuttal Testimony of David Wear, p. 46 at lines 1023-1025) Is  
31 this correct?

32 A. The diagram of the RFG deal shows that the physical arrangement was  
33 for Peoples Gas to buy the RFG from Citgo. (See Attachment B to Staff  
34 Ex. 9.00) Its affiliate PERC, as well as EMW were only pass through  
35 entities for the RFG. Deals between EMW and PERC were not arms-  
36 length, since PEC, Peoples' parent, shared revenues with EMW via oral  
37 agreements. (Staff Ex. 9.00, pp. 6-11 generally; see lines 200-204)  
38 Peoples witness Morrow confirmed that Peoples, through its affiliates, was  
39 a 50/50 partner with EMW in enovate. (Respondent's Ex. N, Additional  
40 Rebuttal Testimony of William E. Morrow, p. 3 at lines 47-53)

41

42 Q. How does Peoples Gas attempt to justify why it did not renew the  
43 Agreement with Citgo?

44 A. After the Agreement terminated, Mr. Wear claims Peoples had no  
45 unilateral option to extend it at the existing price. (Respondent's Ex. L,  
46 Additional Rebuttal Testimony of David Wear, p. 46 at lines 1032-1033)

47

48 Q. Did Peoples explain why PERC conducted transactions under the same  
49 terms of the Agreement even though the Agreement had ended and was  
50 not renewed?

51 A. No, Peoples did not attempt to explain why Citgo maintained the same  
52 terms with Peoples' affiliate, PERC, but not with Peoples Gas.

53

54 Q. Peoples states "[a]ny disallowance whatsoever is penalizing Peoples Gas  
55 for buying discounted gas for its customers." (Respondent's Ex. L,  
56 Additional Rebuttal Testimony of David Wear, p. 47 at lines 1045-1046)  
57 Do you have a response to that statement?

58 A. Such a statement is disingenuous. The disallowance proposed by Staff  
59 calculates the increased gas costs passed along to ratepayers because  
60 Peoples Gas' chose to allow PERC to assume the Citgo RFG contract.  
61 When Peoples transferred the Agreement to PERC, Peoples also paid  
62 PERC a premium for its RFG purchases. The premium is the difference  
63 between the purchase price Peoples paid before the transfer of the  
64 Agreement, which was [REDACTED] of the average city gate price, and the  
65 purchase price Peoples paid after the Agreement was transferred, which

66 was [REDACTED] of the average city gate price for that same gas. (ICC Staff  
67 Exhibit 9.00, pp. 11-14)

68

69 PEC Storage Optimization Contract Adjustment

70 Q. Peoples states, "Respondent and EMW were parties to an agreement  
71 whereby the parties would share in the revenue generated from the  
72 optimization of unutilized storage capacity." (Respondent's Ex. L,  
73 Additional Rebuttal Testimony of David Wear, p. 37 at lines 812-814)  
74 Were these the only two parties that received revenue under the Storage  
75 Optimization Contract ("SOC")?

76 A. No. As discussed above and in my direct testimony, Peoples' parent,  
77 PEC, had oral revenue sharing agreements with EMW during the  
78 reconciliation period. These oral agreements materially affected the  
79 amount of SOC revenues credited to the PGA. As a result, the PGA was  
80 credited only \$334,344, rather than \$957,334 (Staff Ex. 9.00, Schedule  
81 9.02) due to monies that were paid to PEC via PERC for management  
82 fees and revenues generated under the SOC. This fact directly  
83 contradicts Peoples witness Zack's statement that "[t]here is no evidence  
84 that income earned by Respondent's parent corporation...affects...gas  
85 costs." (Respondent's Ex. K, Additional Rebuttal Testimony of Thomas E.  
86 Zack, p. 12, lines 246-249)

87

88 Trunkline Deal Adjustment

89 Q. Peoples Gas' rebuttal testimony concerning the Trunkline deal primarily  
90 discusses the pricing structure of the gas purchases between Peoples  
91 Gas and EMW. (Respondent's Ex. L, Additional Rebuttal Testimony of  
92 David Wear, pp. 42-43) Was this the reason for Staff's adjustment?

93 A. No. Staff's direct testimony outlines how EMW, once again, was used  
94 simply as a conduit for purchases between Peoples Gas and enovate.  
95 (Staff Ex. 9.00, pp. 17-19) That is to say, there was no change in prices  
96 or quantities for the pass-through transactions of EMW to Peoples Gas.  
97 (Staff Ex. 7.00, pp. 68-69) Further, the lack of arms-length relationship  
98 between EMW and Peoples Gas belies Peoples' position that this was  
99 just another supply purchase. Peoples' revenue sharing agreement with  
100 EMW allowed PEC to profit from the Trunkline deal, increasing gas costs  
101 to PGA ratepayers.

102

103 enovate- PEC and Enron Income Adjustments

104 Q. Peoples Gas states that Staff's recommendations for refunds of enovate  
105 profits have no relationship to the subject matter of this proceeding.  
106 (Respondent's Ex. K, Additional Rebuttal Testimony of Thomas E. Zack,  
107 p. 12, lines 244-246) What is your response to such a claim?

108 A. Mr. Zack is incorrect. The primary purpose of this case is to have the  
109 utility demonstrate that its gas supplies bought during the reconciliation

110 year were prudently purchased. (Commencing Order, dated 11/7/2001, at  
111 p. 2) This requires analyzing Peoples Gas' purchases of its gas supply.  
112 Transactions Peoples Gas had with affiliates call for more scrutiny. As  
113 stated in Staff's additional direct testimony, Peoples Gas and enovate  
114 were affiliates, and conducted numerous transactions within the  
115 reconciliation period. (Staff Ex. 9.00, pp. 4-6) Staff also presents  
116 concerns about Peoples' affiliate relationships in Staff Exhibit 9.00. One  
117 example is the unexplained contract between Peoples' affiliate PERC and  
118 EMW concerning Manlove storage field. (Staff Ex. 9.00, Attachment A-1)  
119 Finally, the fact that PEC and Enron/EMW had unwritten agreements to  
120 share revenues generated by Manlove storage field through hub  
121 transactions must be considered in determining the prudence of Peoples  
122 Gas FY2001 purchases. (Staff Ex. 9.00, pp. 6-11 and Attachments C and  
123 D)

124

125 Q. Please summarize Staff's reason for the enovate Adjustments.

126 A. As discussed in ICC Staff Exhibit 9.00, pp. 20-23 and Dr. Rearden's Ex.  
127 7.00, pp. 52-53, if it were not for Peoples Gas' gas distribution system  
128 and its position as a utility, enovate could not conduct business. Further,  
129 the profit from this arrangement benefited only PEC's shareholders,  
130 rather than Peoples Gas' ratepayers through the PGA.

131

- 132 Q. Peoples' disagrees with the premise that enovate profits should be  
133 refunded through the PGA since every company that Peoples does  
134 business with presumably profits through use of its system.  
135 (Respondent's Ex. K, Additional Rebuttal Testimony of Thomas E. Zack,  
136 p. 13, lines 260-275) Does this position have merit?
- 137 A. No it does not, since the analogy is to companies in arms-length business  
138 relationships. That is not the case in this instance. Peoples' relationship  
139 with enovate is not analogous to "another company" (line 274-275), since  
140 Mr. Morrow acknowledges the affiliate relationship enovate had with PEC.  
141 (Respondent's Ex. N, Additional Rebuttal Testimony of William E.  
142 Morrow, p. 3, lines 47-56) PEC's own auditors raised concerns about  
143 the Peoples-enovate operation. (Staff Ex. 9.00, p. 10, lines 243-262 and  
144 Attachment E) Peoples Gas has not provided documentation in order for  
145 Staff to determine the extent to which enovate's profits were tied to  
146 Peoples' gas purchasing and Hub activity. (Staff Ex. 9.00, pp. 23-27 and  
147 Attachment G) It continues to provide unquantified responses, such as  
148 "some amount" of enovate's income was the product of speculative  
149 trading. (Respondent's Ex. N, Additional Rebuttal Testimony of William E.  
150 Morrow, p. 5, lines 101-102) This statement provides Staff with none of  
151 the requested clarifying details or documentation (Staff Ex. 9.00, p. 22,  
152 lines 520-522) in order to revise its adjustments. Incredibly, Peoples itself

153 contends it does not know the aforementioned speculative trading income  
154 amount, neither would it provide an estimate, as requested:

155 "PERC does not know the amount of income that was the  
156 product of speculative trading." (Response to Staff Data  
157 Request POL-22.3)

158 Staff's direct testimony presents an enovate document (Attachment H)  
159 that clearly shows a relationship existed between enovate and Peoples  
160 Gas' PGA on several enovate transactions, for example, "ANR Rolling  
161 Thunder" and "Tidal Wave". Peoples admits that credits for these and  
162 other deals *affected its gas charge*, yet refuses to provide the necessary  
163 documentation and explanations in order to verify that the PGA credits  
164 were appropriate. (Staff Ex. 9.00, pp. 25-26) Therefore, Staff has no  
165 choice but to recommend that the Commission disallow the enovate  
166 profits in its entirety.

167

168 Q. Is Ms. Decker's adjustment (Additional Direct Testimony of Lindy Decker,  
169 City-CUB Ex. 1.0, p. 66) similar to the adjustments you present in ICC  
170 Staff Exhibit 9.00, Schedules 9.05 and 9.06?

171 A. Ms. Decker presents additional reasons to those put forth by Staff (pp.  
172 55-66), but in essence, the adjustments are the same.

173

174 Noncompliance with the Uniform System of Accounts

175 Q. Did Peoples provide additional documentation since the filing of your  
176 additional direct / rebuttal testimony?

177 A. No. Peoples' only response is Company witness Zack's statement that he  
178 does not agree that Peoples is out of compliance with the Uniform System  
179 of Accounts ("USOA"). (Respondent's Ex. K, Additional Rebuttal  
180 Testimony of Thomas E. Zack, p. 16, lines 338-340)

181

182 Q. Did Peoples agree to the USOA compliance report you recommended?  
183 (Staff Ex. 9.00, p. 27, lines 651-655)

184 A. No, Company witness Zack states that a compliance report should be part  
185 of the audit procedures proposed by Peoples Gas. (Zack, lines 340-342)  
186 However, Staff and the Company are not in agreement on the audit  
187 requirements to result from this case, therefore it is unacceptable to  
188 combine the USOA compliance issue into another contested issue.  
189 Therefore, I still recommend that the Commission order the Company to  
190 report how it intends to come into compliance with the USOA, regardless  
191 of the Commission's findings on any audit requirements.

192

193 Conclusion

194 Q. Have any of your recommendations changed since your additional direct /  
195 rebuttal testimony?

196 A. No, my recommendations are the same, which is that the Commission  
197 accept the following adjustments to the Company's PGA reconciliation for  
198 FY 2001:

- 199 (1) Refinery Gas Purchases- disallow approximately \$2.2 million in  
200 increased costs for refinery gas obtained indirectly from PERC at a  
201 price higher than Peoples Gas had paid in previous years  
202 (Schedule 9.01);
- 203 (2) PEC Storage Optimization Contract- offset gas costs by \$623,000  
204 for revenues received by PEC as a result of the SOC (Schedule  
205 9.02);
- 206 (3) Enron Storage Optimization Contract- offset gas costs by \$717,455  
207 for revenues received by EMW and Enron as a result of the SOC  
208 (Schedule 9.03);
- 209 (4) Trunkline Deal - offset gas costs by approximately \$372,000 for  
210 revenues received from the Trunkline Deal since the deal was  
211 effectuated with utility assets (Schedule 9.04);
- 212 (5) enovate –PEC Income - offset gas costs by approximately \$9  
213 million as a result of revenue sharing arrangements with enovate  
214 (Schedule 9.05); and
- 215 (6) enovate –Enron Income - offset gas costs by approximately \$10.6  
216 million as a result of revenue sharing arrangements with enovate  
217 (Schedule 9.06).

218  
219

220 In addition, I continue to recommend the following recommendations that I  
221 made in my additional direct/ rebuttal testimony:

- 222 • I recommend the Commission order the Company to report to the  
223 ICC's Chief Clerk and the Manager of the Commission's Accounting  
224 Department how it intends to come into compliance with the USOA  
225 within 60 days of the order date in this proceeding.
- 226 • I share Staff witness Knepler's recommendation that the Company  
227 immediately update its operating agreement approved by the  
228 Commission in Docket No. 55071. Peoples witness Zack stated that  
229 the Company agreed this recommendation has merit. (Respondent's  
230 Exhibit K, Additional Rebuttal Testimony of Thomas E. Zack, pp. 13-14  
231 at lines 280-284)
- 232 • I recommend the Commission order the Company to allow Staff to use  
233 the discovery documents produced in this proceeding in future

234 reconciliation proceedings of the Company and North Shore Gas  
235 Company.

236

237 Q. Does this conclude your prepared rebuttal testimony?

238 A. Yes, it does.