

*Admitted
4/22/05
Clls*

Direct Testimony

of

Steven R. Knepler

Accounting Department

Financial Analysis Division

Illinois Commerce Commission

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

North Shore Gas Company

Docket No. 01-0706

August 15, 2003

OFFICIAL FILE

I.C.C. DOCKET NO. 01-0706

STAFF Exhibit No. 1.00

Witness: Knepler

Date: 4/22/05 TR

Table of Contents

Witness Identification 1
Schedule Identification 2
Staff Reconciliation Schedules 3
Maintenance Gas: Improper Accounting 5
Records and Procedures 6
Intercompany Service Agreement 6
Summary of PGA Reconciliation 7
Summary of Conclusions and Recommendations 8
Conclusion 8

1 **WITNESS IDENTIFICATION**

2 Q. Please state your name and business address.

3 A. My name is Steven R. Knepler. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5 Q. By whom are you employed and in what capacity?

6 A. I am currently employed as a Supervisor in the Accounting Department of the
7 Financial Analysis Division, Illinois Commerce Commission ("ICC" or
8 "Commission").

9 Q. Please describe your background and professional affiliations.

10 A. I hold a Bachelor of Science Degree in Accounting from Illinois State University.
11 I am a Certified Public Accountant, licensed to practice in the State of Illinois. I
12 joined the Commission's staff ("Staff") in January 1982. Prior to joining Staff, I
13 was employed as an auditor for other State agencies.

14 Q. Have you previously testified before any regulatory body?

15 A. Yes, I have testified on several occasions before the Commission.

16 Q. What is the purpose of your testimony in this proceeding?

17 A. The purpose of my testimony is to present the Staff position on North Shore Gas
18 Company's ("Company" or "North Shore") Purchased Gas Adjustment Clause
19 ("PGA") Reconciliation for the year ending September 30, 2001. David Rearden
20 of Staff is sponsoring an adjustment to reduce North Shore's recoverable gas
21 cost related to the imprudence of the Company's Gas Purchase and Agency
22 Agreement ("GPAA") with Enron North America. Dennis L. Anderson of Staff is
23 offering testimony on the Company's Gas Purchase and Agency Agreement
24 (GPAA) with Enron North America.

25 **SCHEDULE IDENTIFICATION**

26 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 1.00?

27 A. Yes, I prepared the following schedules for the Company that show data for the
28 reconciliation year ending September 30, 2001:

29	Schedule 1.01	PGA Reconciliation Summary
30	Schedule 1.02	Reconciliation of Commodity Gas Charge
31	Schedule 1.03	Adjustments to Commodity Gas Charge
32	Schedule 1.04	Reconciliation of Non-Commodity Gas Charge and Demand
33		Gas Charge
34	Schedule 1.05	Reconciliation of Transition Surcharge

35

36 **STAFF RECONCILIATION SCHEDULES**

37 Q. Describe Schedule 1.01, PGA Reconciliation Summary.

38 A. North Shore's PGA Charge consists of three individual gas charges: (1) the
39 Commodity Gas Charge ("CGC"), (2) the Non-commodity Gas Charge and
40 Demand Gas Charge ("NCGC" and "DGC"), and (3) the Transition Surcharge
41 ("TS"). Column (B) presents Staff's Reconciliation of Commodity Gas Charge.
42 Column (C) is Staff's Reconciliation of the Non-commodity Gas Charge and
43 Demand Gas Charge. Column (D) is Staff's reconciliation of the Transition
44 Surcharge. Column (E) is the sum of Columns (B), (C), and (D) and represents
45 Staff's (total) PGA reconciliation. Line 14 reflects the net effect of all adjustments
46 to each reconciliation and the resulting Ordered Reconciliation Factor ("Factor
47 O"). Staff is proposing refunds through Factor O of \$1,406,330 for the
48 Commodity Gas Charge (CGC). Staff is not proposing adjustments to the Non-
49 commodity Gas Charge and Demand Gas Charge (NCGC and DGC) nor to the
50 Transition Surcharge (TS).

51 Q. Describe Schedule 1.02, Reconciliation of Commodity Gas Charge.

52 A. Schedule 1.02 presents Staff's reconciliation of the Commodity Gas Charge.
53 Column (B) reflects the Company's CGC reconciliation as presented on
54 Company Exhibit 1. Column (C) summarizes Staff's adjustments to the
55 Company's reconciliation. Column (D) is the net of columns (B) and (C) and

56 represents Staff's reconciliation of Commodity Gas Charge. Column (D) is
57 carried forward to my Schedule 1.01, column (B).

58 Q. Describe Schedule 1.03, Adjustments to Commodity Gas Charge.

59 A. Schedule 1.03 identifies individual Staff adjustments to the various components
60 of the Company's presentation of the Commodity Gas Charge Reconciliation.
61 The source of each adjustment is shown in the heading of each column. The
62 total of all Staff adjustments are shown in column (G) and are carried forward to
63 Schedule 1.02, column (C).

64 Q. Describe Schedule 1.04, Reconciliation of Non-commodity Gas Charge and
65 Demand Gas Charge.

66 A. Schedule 1.04 is Staff's reconciliation of the Non-commodity Gas Charge and
67 Demand Gas Charge, the second cost component of North Shore's PGA Charge.
68 The presentation of this schedule is similar to my Schedule 1.02. Column (B)
69 reflects the Company' reconciliation as presented on Company Exhibit 1.
70 Column (C) summarizes Staff's adjustments to the Company's reconciliation.
71 Column (D) is the net of columns (B) and (C) and represents Staff's reconciliation
72 of Non-commodity Gas Charge and Demand Gas Charge. Column (D) is carried
73 forward to my Schedule 1.01, column (C).

74 Q. Describe Schedule 1.05, Reconciliation of Transition Surcharge.

75 A. Schedule 1.05 presents Staff's reconciliation of the third cost component of North
76 Shore's PGA Charge, the Transition Surcharge. The presentation of Schedule
77 1.05 is similar to Staff's two reconciliation schedules described previously,
78 Schedule 1.02 and Schedule 1.04, except that Schedule 1.05 relates to the
79 Transition Surcharge. Column (B) reflects the Company's reconciliation as
80 presented on Company Exhibit 1. Column (C) summarizes Staff's adjustments to
81 the Company's reconciliation. Column (D) is the net of columns (B) and (C) and
82 represents Staff's reconciliation of the Transition Surcharge. Column (D) is
83 carried forward to my Schedule 1.01, column (D).

84 **MAINTENANCE GAS: IMPROPER ACCOUNTING**

85 Q. In Docket No. 01-0707, the PGA reconciliation for The Peoples Gas Light and
86 Coke Company, Staff identified the improper accounting for maintenance gas on
87 injections into the Manlove Storage Field.¹ Are you making any
88 recommendations regarding the accounting for the cost of maintenance gas on
89 injections for North Shore?

90 A. Yes. I am recommending that North Shore Gas Company, and other third parties
91 using Manlove Storage Field, be charged for the cost of maintenance gas on
92 injections into the Manlove Storage Field on their behalf during the reconciliation
93 period.

¹ Docket No. 01-0707, ICC Staff Exhibit 1.00.

94 **RECORDS AND PROCEDURES**

95 Q. During its review of gas supply transactions, did Staff note the absence of
96 support documentation?

97 A. Yes, during the review of transactions at Peoples' headquarters, Staff reviewed
98 certain gas transactions that purchased or sold gas and then, often
99 simultaneously, purchased and sold identical or nearly identical quantities of gas
100 to and from the same vendor. There was no supporting documentation detailing
101 the reasons for entering into these transactions. The lack of documentation can
102 be representative of a breakdown in internal control. Therefore, I am joining Staff
103 witnesses Anderson and Rearden that an outside consulting firm conduct a
104 management audit of North Shore's gas purchasing practices.

105 **INTERCOMPANY SERVICE AGREEMENT**

106 Q. When did North Shore receive Commission approval for its operating
107 agreement?

108 A. The Peoples Gas Light and Coke Company and North Shore Gas Company
109 received Commission approval to enter into its current operating agreement in
110 1969 (The Peoples Gas Light and Coke Company and North Shore Gas
111 Company, Approval for an Intercompany Service Agreement, Docket No. 55071,
112 Order Date September 10, 1969).

113 Q. Do you have any recommendation regarding North Shore's operating
114 agreement?

115 A. Yes. Based on the concerns expressed above, I am recommending that North
116 Shore immediately update its operating agreement approved by the Commission
117 in Docket No. 55071. Furthermore, since Peoples Gas and North Shore are
118 affiliates and operate under an Intercompany Service Agreement, the
119 recommendation for an internal audit of gas purchasing is being made in this
120 proceeding.

121 **SUMMARY OF PGA RECONCILIATION**

122 Q. Please summarize Staff's PGA reconciliation.

123 A. Staff is proposing one adjustment to North Shore's PGA Reconciliation totaling
124 \$1,406,330 to reduce recoverable gas cost for the Reconciliation of Commodity
125 Gas Charge (CGC). This adjustment is sponsored by Staff witness Rearden and
126 relates to the imprudence of the Company's Gas Purchase Agency Agreement
127 (GPAA) with Enron North America.

128 Staff is not proposing adjustments to North Shore's Reconciliation of the Non-
129 Commodity Gas Charge and Demand Gas Charge nor to the Reconciliation of
130 the Transition Surcharge.

131 **SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

132 Q. Please summarize your conclusions and recommendations.

133 A. My conclusions and recommendations are the following:

- 134 • I recommend that the Commission adopt Staff's proposed PGA reconciliation
135 as reflected on ICC Staff Exhibit 1.00, Schedule 1.01. Staff's reconciliation
136 shows that \$1,406,330 is to be refunded to North Shore's PGA customers via
137 the Commodity Gas Charge (CGC) through an Ordered Reconciliation Factor
138 (Factor O) to be reflected in the Company's first monthly PGA filing submitted
139 after the date a final order is entered in this proceeding;
- 140 • I recommend that North Shore Gas immediately update its operating
141 agreement approved by the Commission in Docket No. 55071;
- 142 • I recommend that North Shore perform an annual internal audit of its gas
143 purchasing practices and submit a copy of the report to the Manager of the
144 Commission's Accounting Department by May 1 of each year after the date a
145 final order is entered in this proceeding through May 2008;
- 146 • I share Staff witness Anderson and Rearden's recommendation that North
147 Shore should engage outside consultants to perform a management audit of
148 its gas purchasing practices, gas storage operations and storage activities.
149 Monthly reporting of the progress of the conduct of the management audit
150 should be submitted to the Bureau Chief of the Commission's Public Utilities
151 Bureau, with a copy to the Manager of the Commission's Accounting
152 Department, until the management audit report has been formally submitted.
153 Upon completion, which shall occur no later than 12 months after the date a
154 final order is entered in this proceeding, copies of the management audit
155 report are to be submitted to the Public Utilities Bureau Chief and the
156 Manager of the Accounting Department.

157 **CONCLUSION**

158 Q. Does this question end your prepared direct testimony?

159 A. Yes, it does.

North Shore Gas Company
 PGA Reconciliation Summary
 for the Year Ended September 30, 2001

Line No.	Description	Commodity Gas Charge (CGC)	Non-Commodity Gas Charge & Demand Gas Charge (NCGC and DGC)	Transition Surcharge (TS)	Total Company (B+C+D)
	(A)	(B)	(C)	(D)	(E)
FISCAL 2000					
1.	Unamortized Balance at September 30, 2000 (Refund) / Recovery	\$ 6,355,369.87	\$ 1,430,597.42	\$ 8,853.97	\$ 7,794,821.26
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2000	1,481,407.96	402,205.32	1,581.44	1,885,194.72
3.	Factor O (Refunded) / Recovered	-	-	-	-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	\$ 7,836,777.83	\$ 1,832,802.74	\$ 10,435.41	\$ 9,680,015.98
Fiscal 2001					
5.	Costs Recoverable through the Gas Charge	\$ 156,410,531.37	\$ 17,200,485.63	\$ -	\$ 173,611,017.00
6.	Revenues Arising through Application of the Gas Charge	177,479,345.20	16,648,251.19	29.86	194,127,626.25
7.	Separately Reported Pipeline Refunds or Surcharges	-	(34,749.64)	-	(34,749.64)
8.	Separately Reported Other Adjustments	-	-	-	-
9.	Interest	84,467.79	10,461.09	538.33	95,467.21
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	\$ (20,984,346.04)	\$ 527,945.89	\$ 508.47	(20,455,891.68)
11.	(Over) / Under Recovery Balance at September 30, 2001 (Line 4 + Line 10)	(13,147,568.21)	2,360,748.63	10,943.88	(10,775,875.70)
12.	Factor A Adjustments Amortized to Schedule I at September 30, 2001	(3,759,617.73)	461,404.94	1,698.66	(3,296,514.13)
13.	Unamortized Balance at September 30, 2001 (Refund) / Recovery	(7,981,620.48)	1,899,343.69	9,245.22	(6,073,031.57)
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	\$ (1,406,330.00)	\$ -	\$ -	\$ (1,406,330.00)

Sources:

Column (B): ICC Staff Ex. 1.00, Schedule 1.02, Column (D)
 Column (C): ICC Staff Ex. 1.00, Schedule 1.04, Column (D)
 Column (D): ICC Staff Ex. 1.00, Schedule 1.05, Column (D)

North Shore Gas Company
 Reconciliation of Commodity Gas Charge (CGC)
 For the Year Ended September 30, 2001

Line No.	Description	Commodity Gas Charge (CGC) As Filed (B)	Staff Adjustments (C)	Staff Revised (B+C) (D)
FISCAL 2000				
1.	Unamortized Balance at September 30, 2000 (Refund) / Recovery	\$ 6,355,369.87	\$ -	\$ 6,355,369.87
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2000	1,481,407.96	-	1,481,407.96
3.	Factor O (Refunded) / Recovered	-	-	-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	\$ 7,836,777.83	\$ -	\$ 7,836,777.83
Fiscal 2001				
6.	Costs Recoverable through the Gas Charge	\$ 157,816,861.37	\$ (1,406,330.00)	\$ 156,410,531.37
6.	Revenues Arising through Application of the Gas Charge	177,479,345.20	-	177,479,345.20
7.	Separately Reported Pipeline Refunds or Surcharges	-	-	-
8.	Separately Reported Other Adjustments	-	-	-
9.	Interest	84,467.79	-	84,467.79
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7+ line 8 + Line 9)	\$ (19,578,016.04)	\$ (1,406,330.00)	\$ (20,984,346.04)
11.	(Over) / Under Recovery Balance at September 30, 2001 (Line 4 + Line 10)	(11,741,238.21)	(1,406,330.00)	(13,147,568.21)
12.	Factor A Adjustments Amortized to Schedule I at September 30, 2001	(3,759,617.73)	-	(3,759,617.73)
13.	Unamortized Balance at September 30, 2001 (Refund) / Recovery	(7,981,620.48)	-	(7,981,620.48)
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	\$ -	\$ (1,406,330.00)	\$ (1,406,330.00)

Source:

Column (B): Company Exhibit 1

Column (C): ICC Staff Exhibit 1.00, Schedule 1.03, Col. G.

North Shore Gas Company
 Adjustments to Commodity Gas Charge
 For the Year Ended September 30, 2001

Line No.	Description (A)	Enron GPAA Imprudence ICC Staff Ex. 3.00 (B)	(C)	(D)	(E)	(F)	Total Commodity Gas Adjustments (G)
FISCAL 2000							
1.	Unamortized Balance at September 30, 2000						
2.	Factor A Adjustments Amortized to Schedule I at 9-30-00						
3.	Factor O (Refunded) / Recovered						
4.	Balance (Refundable) / Recoverable from Prior Periods						
Fiscal 2001							
5.	Costs Recoverable through the Gas Charge	\$ (1,406,330)	\$ -	\$ -	\$ -	\$ -	(1,406,330)
6.	Revenues Arising through Application of the Gas Charge						
7.	Separately Reported Pipeline Refunds or Surcharges						
8.	Separately Reported Other Adjustments						
9.	Interest						
10.	(Over) / Under Recovery for Reconciliation Year						
11.	(Over) / Under Recovery Balance at 9-30-01 (Line 4 + Line 10)						
12.	Factor A Adjustments Amortized to Schedule I at 9-30-01						
13.	Unamortized Balance at September 30, 2001						
14.	Requested Factor O (Line 11 - Line 12 - Line 13)						

North Shore Gas Company
Reconciliation of Non-Commodity Gas Charge and Demand Gas Charge
For the Year Ended September 30, 2001

Line No.	Description (A)	Non-Commodity Gas Charge & Demand Gas Charge (NCGC and DGC) As Filed (B)	Staff Adjustments (C)	Staff Revised (B+C) (D)
FISCAL 2000				
1.	Unamortized Balance at September 30, 2000 (Refund) / Recovery	\$ 1,430,597.42		\$ 1,430,597.42
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2000	402,206.32		402,206.32
3.	Factor O (Refunded) / Recovered	-		-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	\$ 1,832,802.74		\$ 1,832,802.74
Fiscal 2001				
5.	Costs Recoverable through the Gas Charge	\$ 17,200,485.63		\$ 17,200,485.63
6.	Revenues Arising through Application of the Gas Charge	16,648,251.19		16,648,251.19
7.	Separately Reported Pipeline Refunds or Surcharges	(34,749.64)		(34,749.64)
8.	Separately Reported Other Adjustments	-		-
9.	Interest	10,461.09		10,461.09
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7+ line 8 + Line 9)	\$ 527,945.89	\$ -	\$ 527,945.89
11.	(Over) / Under Recovery Balance at September 30, 2001 (Line 4 + Line 10)	2,360,748.63	-	2,360,748.63
12.	Factor A Adjustments Amortized to Schedule I at September 30, 2001	461,404.94		461,404.94
13.	Unamortized Balance at September 30, 2001 (Refund) / Recovery	1,899,343.69		1,899,343.69
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	\$ -	\$ -	\$ -

Source:
 Column (B): Company Exhibit 1

North Shore Gas Company
 Reconciliation of Transition Surcharge
 For the Year Ended September 30, 2001

Line No.	Description (A)	Transition Surcharge (TS) As Filed (B)	Staff Adjustments (C)	Staff Revised (B+C) (D)
FISCAL 2000				
1.	Unamortized Balance at September 30, 2000 (Refund) / Recovery	\$ 8,853.97	\$ -	\$ 8,853.97
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2000	1,581.44	-	1,581.44
3.	Factor O (Refunded) / Recovered	-	-	-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	\$ 10,435.41	\$ -	\$ 10,435.41
Fiscal 2001				
5.	Costs Recoverable through the Gas Charge	\$ -	\$ -	\$ -
6.	Revenues Arising through Application of the Gas Charge	29.86	-	29.86
7.	Separately Reported Pipeline Refunds or Surcharges	-	-	-
8.	Separately Reported Other Adjustments	-	-	-
9.	Interest	538.33	-	538.33
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7+ line 8 + Line 9)	\$ 508.47	\$ -	\$ 508.47
11.	(Over) / Under Recovery Balance at September 30, 2001 (Line 4 + Line 10)	10,943.88	-	10,943.88
12.	Factor A Adjustments Amortized to Schedule I at September 30, 2001	1,698.66	-	1,698.66
13.	Unamortized Balance at September 30, 2001 (Refund) / Recovery	9,245.22	-	9,245.22
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	\$ -	\$ -	\$ -

Source:
 Column (B): Company Exhibit 1