

**DIRECT 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 Nos. 06-0752/07-0312 (Cons.)**

**July 22, 2008**

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Period 1 Schedules

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Schedule 1.4           Banked Gas Reconciliation Adjustment

Period 2 Schedule

Schedule 1.5           PGA Reconciliation Summary

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. By whom are you employed and in what capacity?

7 A. I am an Accountant in the Accounting Department of the Financial  
8 Analysis Division of the Illinois Commerce Commission ("Commission").

9

10 Q. What is the function of the Accounting Department of the Illinois  
11 Commerce Commission?

12 A. The Accounting Department's function is to monitor the financial condition  
13 of public utilities as part of the Commission's responsibilities under Article  
14 IV of the Public Utilities Act ("Act") and to provide accounting expertise on  
15 matters before the Commission.

16

17 Q. Please describe your background and professional affiliation.

18 A. I am a licensed Certified Public Accountant. I earned a B.S. in Accounting  
19 from Illinois State University in 1993. Prior to joining the Commission Staff  
20 ("Staff") in 1998, I worked as an internal auditor for another Illinois state  
21 agency for approximately 3.5 years. I also have 1.5 years experience in  
22 public accounting for a national firm.

23 Q. Have you previously testified before this Commission?

24 A. Yes, I have.

25

26 Purpose of Testimony

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

28 A. The purpose of my testimony is to report the results of my review of The  
29 Peoples Gas Light and Coke Company's ("Peoples", "Respondent" or  
30 "Company") Purchased Gas Adjustment Clause ("PGA") Reconciliation for  
31 two periods as calculated by its witness Christine Gregor, in Respondent's  
32 Exhibits CG-1.1 and CG-2.1, and the underlying documents that support  
33 the calculations. The first period ("Period 1") is for the twelve months  
34 ending September 30, 2006, and the second period ("Period 2") is for the  
35 three months ending December 31, 2006.

36

37 Q. Why are there two periods in this reconciliation proceeding?

38 A. Period 1 represents the final twelve-month period closing at September  
39 30, 2006. As part of its reorganization with Integrys Energy Group,  
40 approved by the Commission in Docket No. 06-0540, the Company  
41 changed its fiscal year to a calendar basis. Period 2 represents the three-  
42 month transition period between the final September fiscal year end and  
43 the first full year on a calendar basis, in 2007.

44

45 Q. Are you sponsoring any schedules as part of your direct testimony?

46 A. Yes. I prepared the following schedules for the Company that show data  
47 for the reconciliation year ending September 30, 2006 and for the three  
48 months ending December 31, 2006:

49 Schedule 1.1 PGA Reconciliation Summary of Both Periods

50

51 Period 1 Schedules

52 Schedule 1.2 PGA Reconciliation Summary

53

54 Schedule 1.3 Reconciliation of Commodity Gas Charge (CGC)

55 Schedule 1.4 Banked Gas Reconciliation Adjustment

56 Period 2 Schedule

57 Schedule 1.5 PGA Reconciliation Summary

58

59 Q. Do you have any attachments to your testimony?

60 A. Yes. Attachment A reflects the Company's revised response to Staff data  
61 request DLH-5.02.

62

63 Staff Reconciliation Schedules

64 Q. Please describe Schedule 1.1, PGA Reconciliation Summary of Both  
65 Periods.

66 A. This schedule presents Staff's overall recommendation for both Periods,  
67 as reflected in Schedules 1.2 and 1.5 for Periods 1 and 2, respectively.

68 Line 14 reflects the net effect of all adjustments to each Period and the

69 resulting ordered reconciliation factor ("Factor O"). Period 1 results in a  
70 Factor O refund of \$571,933.44, and Period 2 results in no Factor O.

71

72 Q. Please describe Schedules 1.2 and 1.5, PGA Reconciliation Summary.

73 A. Schedules 1.2 and 1.5 present summaries for Periods 1 and 2,  
74 respectively, of the three components of Peoples' PGA Gas Charge.  
75 Peoples' PGA Charge consists of three individual gas charges: (1) the  
76 Commodity Gas Charge (CGC), (2) the Non-commodity Gas Charge,  
77 Demand Gas Charge, and Aggregation Balancing Gas Charge (NCGC,  
78 DGC, and ABGC), and (3) the Transition Surcharge (TS). Column (B)  
79 presents the Staff's Reconciliation of the Commodity Gas Charge.  
80 Column (C) is Staff's Reconciliation of the Non-commodity Gas Charge,  
81 Demand Gas Charge, and Aggregation Balancing Gas Charge. Column  
82 (D) is Staff's reconciliation of the Transition Surcharge. Column (E) is the  
83 sum of Columns (B), (C), and (D) and represents Staff's (total) PGA  
84 reconciliation for Period 1. Line 14 reflects the net effect of all  
85 adjustments to each reconciliation and the resulting Factor O.

86

87 For Period 1, Staff is proposing refunds through Factor O of \$571,933.44  
88 for the Commodity Gas Charge. Staff is not proposing adjustments to the  
89 Non-commodity Gas Charge, Demand Gas Charge, and Aggregation  
90 Balancing Gas Charge nor to the Transition Surcharge.

91

92 For Period 2, Staff is not proposing any adjustments.

93

94 Q. Describe Schedule 1.3, Reconciliation of Commodity Gas Charge (CGC).

95 A. Schedule 1.3 presents Staff's reconciliation for Period 1 of the Commodity  
96 Gas Charge. Column (B) reflects the Company's CGC reconciliation as  
97 presented on the Company's Exhibit CG-1.1. Column (C) summarizes  
98 Staff's adjustments to the Company's reconciliation. Column (D) is the net  
99 of columns (B) and (C) and represents Staff's reconciliation of the  
100 Commodity Gas Charge. Column (D) is carried forward to Schedule 1.2,  
101 column (B).

102

103 Banked Gas Reconciliation Adjustment

104 Q. Please describe Schedule 1.4, Banked Gas Reconciliation Adjustment.

105 A. Schedule 1.4 presents my proposed disallowance of \$571,933.44 for a  
106 reconciling adjustment made by Peoples in September of 2006 for banked  
107 gas for items not identified and presumed to be prior to the reconciliation  
108 period. (Attachment A-Company revised response to Staff data request  
109 DLH-5.02) The Commission, in its Order in the Company's 2005 PGA  
110 reconciliation proceeding, found:

111 The language of Section 525 of the Administrative Code  
112 supports the position that a utility may generally not recover  
113 a cost out of the reconciliation period, except in the limited

114 instances enumerated in the rules....Although we are  
115 hesitant to say that exceptions will never occur, this situation  
116 does not warrant making such an exception. (Order, Docket  
117 No. 05-0749, January 16, 2008, p. 9)

118 Since the Company cannot identify items related to the reconciliation  
119 period for this item, and in accordance with the Commission's Order in  
120 Docket No. 05-0749, this adjustment is appropriate to disallow non-  
121 reconciliation period costs from the gas charge.

122

123 Summary of Conclusions and Recommendations

124 Q. Please summarize your recommendation.

125 A. I recommend that the Commission adopt Staff's proposed PGA  
126 reconciliations as reflected on ICC Staff Exhibit 1.0, Schedule 1.1. Staff's  
127 reconciliation in Schedule 1.2 shows that \$571,933.44 is to be refunded to  
128 Peoples' PGA customers via the Commodity Gas Charge through an  
129 Ordered Reconciliation Factor to be reflected in the Company's first  
130 monthly PGA filing submitted after the date a Final Order is entered in this  
131 proceeding.

132

133 Q. Does this conclude your prepared direct testimony?

134 A. Yes, it does.

The Peoples Gas Light and Coke Company  
 Dockets 06-0752 and 07-0312

REVISED March 7, 2008

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**Data Request: DLH 5.02**

Referring to the Company's response to Staff data request GS-23, Attachment A, page 19 of 34 reflects a difference of 99,809 Dth with a note "Of the difference, 34,145 Dth has been identified as adjustments needed to made to SAP originating in this FY."

- a) Did the 99,809 Dth adjustment increase or decrease the liability for customer owned gas in the reconciliation period?
- b) What page(s) in GS-23, Attachment A, reflect the dollar amount of the 99,809 Dth adjustment?
- c) How much did the 99,809 Dth adjustment increase or decrease PGA gas costs in the reconciliation period?
- d) Provide a full explanation of the note quoted above. Include in the explanation how the referenced 34,145 Dth either relates to or does not relate to the \$869,000 adjustment discussed in Staff data request DLH-5.01. Also state which page(s) in GS-23, Attachment A, reflect the dollar amount and supporting documentation of the 34,145 Dth adjustment, and state the impact on the liability for customer owned gas and PGA gas costs for the 34,145 Dth adjustment.

**Response:**

- a) The adjustment increased the liability for customer-owned gas.
- b) The actual dollar value of the Dth adjustment of 99,809 was \$869,336.39 as recorded on the Company's books in September 2006. This amount is included in the overall increase to the customers' bank accounts. The volume of 592,754 Dth and amount of \$5,215,300.05 are shown on page 2 of the response to Staff data request GS-23, Attachment A.
- c) See the response to subpart (b) of this data request and the response to Staff data request DLH 5.01.
- d) As part of the process used to determine the components of the bank gas reconciliation, specific items were identified as comprising a portion of the 99,809 Dth difference. These items were identified and are summarized on the attached document. For the items identified totaling 34,145 Dth, all of these issues related to the reconciliation period of this proceeding. Summarizing the components of the entry as recorded in September 2006:

	<b>DTH</b>	<b>LIFO (1)</b>	<b>Adjustment Recorded</b>
Items identified related to reconciliation period	34,145	\$8.71	\$297,402.95
Items not identified (presumed to be prior to the reconciliation period)	65,664	\$8.71	\$571,933.44
<b>Total</b>	<b>99,809</b>	<b>\$8.71</b>	<b>\$869,336.39</b>

(1) Commodity LIFO price at September 30, 2006

There was an increase to both gas costs and the liability for customer owned gas.

The Peoples Gas Light and Coke Company  
PGA Reconciliation Summary of Both Periods  
for the Periods Ended September 30, 2006 and December 31, 2006

Line No.	Description (A)	Total (1) at Sept. 30, 2006 (Schedule 1.2) (B)	Total (2) at Dec. 31, 2006 (Respondent Ex. CG-2.1) (C)	Total Factor O per Staff
1.	Unamortized Balance at September 30, 2005/2006 Respectively (Refund) / Recovery	\$ 4,122,655.50	\$ (21,690,102.66)	
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2005/2006 Respectively	2,745,404.97	(23,603,023.31)	
3.	Factor O (Refunded) / Recovered	-	-	
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	<u>\$ 6,868,060.47</u>	<u>\$ (45,293,125.97)</u>	
5.	Costs Recoverable through the Gas Charge	\$ 996,405,023.99	\$ 282,261,717.00	
6.	Revenues Arising through Application of the Gas Charge	1,047,102,349.61	250,204,484.11	
7.	Separately Reported Pipeline Refunds or Surcharges	(1,080,064.67)	-	
8.	Separately Reported Other Adjustments	-	(190,264.06)	
9.	Interest	(955,729.59)	(70,545.92)	
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	<u>\$ (52,733,119.88)</u>	<u>\$ 31,796,422.91</u>	
11.	(Over) / Under Recovery Balance at September 30 and December 31, 2006 Respectively (Line 4 + Line 10)	(45,865,059.41)	(13,496,703.06)	
12.	Factor A Adjustments Amortized to Schedule I at September 30 and December 31, 2006 Respectively	(23,603,023.31)	(8,747,850.23)	
13.	Unamortized Balance at September 30 and December 31, 2006 Respectively (Refund) / Recovery	(21,690,102.66)	(4,748,852.83)	
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	<u>\$ (571,933.44)</u>	<u>\$ -</u>	<u>\$ (571,933.44)</u>

(1) Reconciliation Period: October 1, 2005 through September 30, 2006

(2) Reconciliation Period: October 1, 2006 through December 31, 2006

The Peoples Gas Light and Coke Company  
PGA Reconciliation Summary  
for the Year Ended September 30, 2006

Line No.	Description	Commodity Gas Charge (CGC) (Staff Schedule 1.3)	Non-Commodity Gas Charge, Demand Gas Charge & Aggreg. Balancing GC (NCGC, DGC and ABGC) (Respondent Ex. CG-1.1)	Transition Surcharge (TS) (Respondent Ex. CG-1.1)	Total Company (B+C+D)
	(A)	(B)	(C)	(D)	(E)
1.	Unamortized Balance at September 30, 2005 (Refund) / Recovery	\$ -	\$ 4,147,881.62	\$ (25,226.12)	\$ 4,122,655.50
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2005	2,046,888.38	702,911.11	(4,394.52)	2,745,404.97
3.	Factor O (Refunded) / Recovered	-	-	-	-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	\$ 2,046,888.38	\$ 4,850,792.73	\$ (29,620.64)	\$ 6,868,060.47
5.	Costs Recoverable through the Gas Charge	\$ 956,793,842.60	\$ 39,611,181.39	\$ -	\$ 996,405,023.99
6.	Revenues Arising through Application of the Gas Charge	1,007,399,059.65	39,703,292.75	(2.79)	1,047,102,349.61
7.	Separately Reported Pipeline Refunds or Surcharges	(845,673.00)	(234,391.67)	-	(1,080,064.67)
8.	Separately Reported Other Adjustments	-	-	-	-
9.	Interest	(958,652.52)	4,034.27	(1,111.34)	(955,729.59)
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	\$ (52,409,542.57)	\$ (322,468.76)	\$ (1,108.55)	\$ (52,733,119.88)
11.	(Over) / Under Recovery Balance at September 30, 2006 (Line 4 + Line 10)	(50,362,654.19)	4,528,323.97	(30,729.19)	(45,865,059.41)
12.	Factor A Adjustments Amortized to Schedule I at September 30, 2006	(24,248,452.82)	650,106.64	(4,677.13)	(23,603,023.31)
13.	Unamortized Balance at September 30, 2006 (Refund) / Recovery	(25,542,267.93)	3,878,217.33	(26,052.06)	(21,690,102.66)
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	\$ (571,933.44)	\$ -	\$ -	\$ (571,933.44)

The Peoples Gas Light and Coke Company  
Reconciliation of Commodity Gas Charge (CGC)  
For the Year Ended September 30, 2006

Line No.	Description (A)	Commodity Gas Charge (CGC) As Filed (B)	Staff Adjustments (Schedule 1.4) (C)	Staff Revised (B+C) (D)
1.	Unamortized Balance at September 30, 2005 (Refund) / Recovery	\$ -	\$ -	\$ -
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2005	2,046,888.38	-	2,046,888.38
3.	Factor O (Refunded) / Recovered	-	-	-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	<u>\$ 2,046,888.38</u>	<u>\$ -</u>	<u>\$ 2,046,888.38</u>
5.	Costs Recoverable through the Gas Charge	\$ 957,365,776.04	\$ (571,933.44)	\$ 956,793,842.60
6.	Revenues Arising through Application of the Gas Charge	1,007,399,059.65		1,007,399,059.65
7.	Separately Reported Pipeline Refunds or Surcharges	(845,673.00)		(845,673.00)
8.	Separately Reported Other Adjustments	-		-
9.	Interest	<u>(958,652.52)</u>	-	<u>(958,652.52)</u>
10.	(Over) / Under Recovery for Reconciliation Year (Line 5 - Line 6 + Line 7+ line 8 + Line 9)	<u>\$ (51,837,609.13)</u>	<u>\$ (571,933.44)</u>	<u>\$ (52,409,542.57)</u>
11.	(Over) / Under Recovery Balance at September 30, 2006 (Line 4 + Line 10)	(49,790,720.75)	(571,933.44)	(50,362,654.19)
12.	Factor A Adjustments Amortized to Schedule I at September 30, 2006	(24,248,452.82)	-	(24,248,452.82)
13.	Unamortized Balance at September 30, 2006 (Refund) / Recovery	<u>(25,542,267.93)</u>	-	<u>(25,542,267.93)</u>
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	<u>\$ -</u>	<u>\$ (571,933.44)</u>	<u>\$ (571,933.44)</u>

The Peoples Gas Light and Coke Company  
Banked Gas Reconciliation Adjustment  
For the Year Ended September 30, 2006

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1.	Banked Gas Reconciliation Adjustment per Staff	\$ -	Staff Testimony
2.	Banked Gas Reconciliation Adjustment per Company	<u>571,933.44</u>	Company Response to DLH-5.02 b
3.	Staff Proposed Adjustment	<u>\$ (571,933.44)</u>	Line 1 - line 2

The Peoples Gas Light and Coke Company  
PGA Reconciliation Summary  
for the Quarter Ended December 31, 2006

Line No.	Description	Commodity	Non-Commodity	Transition	Total
		Gas Charge (CGC) (Respondent Ex. CG-2.1)	Gas Charge, Demand Gas Charge & Aggreg. Balancing GC (NCGC, DGC and ABGC) (Respondent Ex. CG-2.1)	Surcharge (TS) (Respondent Ex. CG-2.1)	Company (B+C+D)
	(A)	(B)	(C)	(D)	(E)
1.	Unamortized Balance at September 30, 2006 (Refund) / Recovery	\$ (25,542,267.93)	\$ 3,878,217.33	\$ (26,052.06)	\$ (21,690,102.66)
2.	Factor A Adjustments Amortized to Schedule I at September 30, 2006	(24,248,452.82)	650,106.64	(4,677.13)	(23,603,023.31)
3.	Factor O (Refunded) / Recovered	-	-	-	-
4.	Balance (Refundable) / Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	\$ (49,790,720.75)	\$ 4,528,323.97	\$ (30,729.19)	\$ (45,293,125.97)
5.	Costs Recoverable through the Gas Charge	\$ 271,413,834.62	\$ 10,847,882.38	\$ -	\$ 282,261,717.00
6.	Revenues Arising through Application of the Gas Charge	234,471,270.41	15,733,252.74	(39.04)	250,204,484.11
7.	Separately Reported Pipeline Refunds or Surcharges	-	-	-	-
8.	Separately Reported Other Adjustments	(190,264.06)	-	-	(190,264.06)
9.	Interest	(83,884.60)	13,609.50	(270.82)	(70,545.92)
10.	(Over) / Under Recovery for Reconciliation Period (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	\$ 36,668,415.55	\$ (4,871,760.86)	\$ (231.78)	\$ 31,796,422.91
11.	(Over) / Under Recovery Balance at December 31, 2006 (Line 4 + Line 10)	(13,122,305.20)	(343,436.89)	(30,960.97)	(13,496,703.06)
12.	Factor A Adjustments Amortized to Schedule I at December 31, 2006	(8,973,539.51)	234,243.13	(8,553.85)	(8,747,850.23)
13.	Unamortized Balance at December 31, 2006 (Refund) / Recovery	(4,148,765.69)	(577,680.02)	(22,407.12)	(4,748,852.83)
14.	Requested Factor O (Line 11 - Line 12 - Line 13) (Refund) / Recovery	\$ 0.00	\$ -	\$ -	\$ -