

REBUTTAL TESTIMONY

of

MIKE OSTRANDER

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Northern Illinois Gas Company

d/b/a Nicor Gas Company

Proposed General Increase in Gas Rates

Docket No. 08-0363

October 23, 2008

OFFICIAL FILE

I.C.C. DOCKET NO. 08-0363

Staff Exhibit No. 17.0

Witness

Date 11/19/08 Reporter To

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1 **Witness Identification**

2 **Q. Please state your name and business address.**

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

5 **Q. Are you the same Mike Ostrander who submitted Direct Testimony in this**
6 **case?**

7 A. Yes, I am.

8 **Purpose of Rebuttal Testimony**

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. I am presenting testimony regarding utility plant and the related impact on
11 accumulated depreciation, accumulated deferred income taxes and depreciation
12 expense. These issues were discussed in the rebuttal testimony of Rocco J.
13 D'Alessandro and James M. Gorenz, testifying on behalf of Nicor Gas Company
14 ("Nicor Gas" or "Company"); Co. Ex. Nos. 18.0 and No. 26.0, respectively.
15 In addition, I offer comment on certain intervenors' adjustments that the
16 Company opposes.

17 **Uncontested Issues**

18 **Q. Please identify any adjustments from your direct testimony that the**
19 **Company no longer contests and has reflected in its rebuttal revenue**
20 **requirement.**

1 A. The Company has reflected in its rebuttal revenue requirement the following
22 adjustments I proposed in my direct testimony, ICC Staff Exhibit 4.0:

23 Schedule 4.03 Adjustment for Property Taxes Expense

24 Schedule 4.04 Adjustment for Construction Work in Progress

25 **Schedule Identification**

26 Q. **Are you sponsoring any schedules as part of ICC Staff Exhibit 17.0?**

27 A. Yes. I am sponsoring the following schedules that show data as of, or for the
28 future test year ending December 31, 2009:

29 Schedule 17.01 Adjustment for Utility Plant – Post Test Year Plant

30 Additions

31 Schedule 17.02 Adjustment for Utility Plant – 2008 and 2009 Estimated Plant

32 Additions

33 **Post Test Year Plant Additions**

34 Q. **Describe Staff Ex. 17.0, Schedule 17.01, Adjustment for Utility Plant – Post**
35 **Test Year Plant Additions.**

36 A. Schedule 17.01 presents my proposed adjustment to incorporate the plant
37 disallowance Staff witness Maple proposes in Staff Ex. 23.0. Staff witness Maple
38 has determined that two building projects will not be completed and in operation
39 by the end of the 2009 test year. (Staff Ex. 23.0, p.1) My proposed adjustment
40 removes the utility plant and related accumulated depreciation, accumulated
41 deferred income taxes, and depreciation expense for these plant additions that

2 should be disallowed, but are included in utility plant in the Company's filings.

43 This adjustment is similar to the adjustment proposed in my direct testimony, ICC
44 Staff Exhibit 4.0, Schedule 4.01.

45 **Q. How does your adjustment in Schedule 17.01 differ from your adjustment in**
46 **Schedule 4.01?**

47 A. Schedule 17.01 has been updated to reflect the impact on depreciation expense
48 and accumulated deferred income taxes as recalculated by Company witness
49 Gorenz in rebuttal testimony Co. Ex. 26.2, Schedules 2 and 5, respectively.

50 **2008 and 2009 Estimated Plant Additions**

51 **Q. Describe Staff Ex. 17.0, Schedule 17.02, Adjustment for Utility Plant – 2008**
52 **and 2009 Estimated Plant Additions.**

53 A. Schedule 17.02 presents my proposed adjustment to reduce utility plant and
54 related accumulated depreciation, accumulated deferred income taxes, and
55 depreciation expense for 2008 and 2009 estimated plant additions that are
56 overstated based on the Company's historical pattern of overestimating its
57 projected plant additions. This adjustment is similar to the adjustment proposed
58 in my direct testimony, ICC Staff Exhibit 4.0, Schedule 4.02.

59 **Q. How does your adjustment in Schedule 17.02 differ from your adjustment in**
60 **Schedule 4.02?**

61 A. Schedule 17.02 has been updated to reflect the impact on depreciation expense,
62 accumulated depreciation and accumulated deferred income taxes as

63 recalculated by Company witness Gorenz in rebuttal testimony Co. Ex. 26.2,
64 Schedules 3, 4 and 6, respectively.

65 **Q. Does the Company accept your adjustment?**

66 A. No. The Company believes that its forecasting of plant additions has been
67 "remarkably accurate" and no disallowance is in order (Co. Ex. 18.0, pp. 9-10,
68 lines 211-226).

69 **Q. What is your response?**

70 A. The Company acknowledges that plant additions have been, on average, within
71 3% of the forecast for the years 2004 through 2007 (Co. Ex. 18.0, p. 10, lines
72 219-220). The Company considers this historical average of actual plant
73 additions being under budget as a demonstration of the Company's impressive
74 forecasting performance (Co. Ex. 18.0, p. 10, lines 221-222). Whether or not the
75 Company's plant additions forecasting results are impressive and/or remarkably
76 accurate could be debated. However, it is an undisputed fact that the Company
77 has overestimated plant additions by 2.87% between 2004 and 2007. In the
78 Company's last rate case, Docket No. 04-0779, the Commission accepted an
79 adjustment to reduce the Company's forecasted plant additions based on an
80 average of historical under budget variances that was only 0.8%.

81 **Test Year Plant in Service Adjustment**

82 **Q. Describe the proposed adjustment by David Efron, testifying on behalf of**
83 **the Office of the Illinois Attorney General and Citizens Utility Board**

4 (collectively "AG/CUB"), to reduce the Company's 2008 and 2009

85 forecasted plant additions (AG/CUB Exhibit 1.0 (Public), pp. 5-7).

86 A. Mr. Effron proposes to reduce the Company's 2008 and 2009 forecasted plant
87 additions due to the significantly greater level of forecasted additions compared
88 to actual additions in recent years and that the Company's capital expenditures
89 were under budget through June 2008. I agree with Mr. Effron that the
90 Company's forecast of 2008 and 2009 plant additions should be reduced. The
91 proposed adjustment (and related adjustments to accumulated depreciation
92 reserve, accumulated deferred taxes and depreciation expense) by Mr. Effron is
93 a reasonable alternative to my proposed forecasted plant additions adjustment. I
94 prefer my adjustment because it is based on the Company's historical pattern of
95 overestimating its plant additions by an average of 2.87% for the years 2004
96 through 2007. Mr. Effron's adjustment is limited to a certain point in time which is
97 the under budget variance for the six months ended June 30, 2008.

98 **Accumulated Depreciation Reserve**

99 **Q. Describe AG/CUB Witness Effron's proposed adjustment to accumulated**
100 **depreciation reserve (AG/CUB Exhibit 1.0 (Public), pp. 7-9).**

101 A. In addition to the above plant related adjustment, Mr. Effron proposes to reduce
102 the cost of removing and retiring plant which is charged against the accumulated
103 depreciation reserve. The basis of his adjustment is that the forecasted cost of
104 removal related to distribution, underground storage and transmission plant in the

105 years 2008 and 2009 is substantially in excess of the actual cost of removal in
106 prior years.

107 **Q. Describe the Company's rebuttal testimony concerning Mr. Effron's**
108 **adjustment to accumulated depreciation reserve and your conclusion?**

109 A. The Company contends that Mr. Effron's proposed adjustment fails to recognize
110 the business reasons for the increase in removal costs and that his adjustment
111 would in effect be overstating and double-counting the impact on the Company's
112 test year rate base (Co. Ex. 26.0, pp. 16-18). Mr. Effron has already proposed a
113 reduction to forecasted plant additions due to the Company's capital
114 expenditures being under budget through June 2008. The Company in response
115 to AG Data Request 2.04 (DJE) provided a comparison of actual to budgeted
116 capital expenditures through June 30, 2008. The Company defines capital
117 expenditures to include plant additions, removal costs and salvage. Thus Mr.
118 Effron has already addressed adjusting removal costs as they are a component
119 of capital expenditures, which was the basis for the adjustment to forecasted
120 plant additions. Therefore, I agree with the Company that Mr. Effron's adjustment
121 to the accumulated depreciation reserve would be overstating the impact on the
122 Company's test year rate base.

123 The increase in removal costs is due to the implementation of an accelerated
124 rate of replacement of cast iron main and copper service infrastructure.

125 Company witnesses McCain (Co. Ex. 5.0, pp. 8-11) and O'Connor (Co. Ex. 12.0,
126 pp. 28-34) discuss Nicor Gas' rationale for accelerating its cast iron main and
127 copper service replacements and the use of a rider mechanism (Rider QIP) to

128 recover post test year investment in replacement of infrastructure. Staff witness
129 Lazare and AG/CUB witness Rubin recommend that the Commission reject the
130 adoption of the Company's proposed Rider QIP (Staff Ex. 7.0, pp. 16-22 and
131 AG/CUB Exhibit 2.0 (Public), pp. 29-38, respectively). Staff witness Anderson
132 and AG/CUB witness Rubin recommend that the Commission reject the
133 Company's implementation of an accelerated main replacement program (Staff
134 Ex. 9.0, pp. 4-8 and AG/CUB Exhibit 2.0 (Public), pp. 29-38, respectively). I have
135 no opinion regarding Rider QIP or the implementation of an accelerated main
136 replacement program. However, should the Commission not approve the
137 Company's accelerated main replacement program for both Rider QIP and the
138 test year, then Mr. Efron's adjustment for the increased cost of removing retired
139 plant would be appropriate. The Company has identified approximately \$12.3
140 million of incremental plant additions in the 2009 test year associated with the
141 accelerated main replacement program which should also be removed from the
142 Company's rate base due to Commission non-approval of the accelerated main
143 replacement program for the test year (Co. Ex. 5.0, p. 8).

144 **Account 874 - Mains and Services Expenses**

145 **Q. Describe AG/CUB Witness Efron's proposed adjustment to account 874,**
146 **Mains and Services Expenses (AG/CUB Exhibit 1.0 (Public), pp. 25-26).**

147 **A.** Mr. Efron proposes to reduce the Company's forecasted 2009 test year costs
148 incurred in operating distribution mains and services. Mr. Efron believes that the

149 Company has not identified the factors that support the Company's forecast to be
150 approximately 28% higher than the actual expenses incurred during 2007.

151 **Q. Describe the Company's rebuttal testimony concerning Mr. Effron's**
152 **adjustment to account 874, Mains and Services Expenses and your**
153 **conclusion.**

154 A. The Company identifies the following factors that support the forecasted increase
155 in mains and services expenses: labor costs increase, contractor costs increase
156 and a reclassification between O & M expense accounts (Co. Ex. 20.0, pp. 10-
157 11, lines 209-232). The labor costs increase is due to: hourly wage increase per
158 union contract, additional personnel and employee job training costs. The
159 contractor costs increase is due to higher projected location contractor volume
160 and higher fees per contract provisions. The reclassification between O & M
161 expense accounts was needed to correct an inconsistency with how certain costs
162 were classified in the company's test year revenue requirement in compliance
163 with the ICC's Uniform System of Accounts for Gas Utilities Operating in Illinois.
164 There was no net impact on the Distribution operation and maintenance
165 expenses (Co. Ex. 26.0, pp. 44-45, lines 954-971). Assuming the reliability of the
166 additional information provided by the Company, I believe Mr. Effron's
167 adjustment is not necessary.

168 **Conclusion**

169 **Q. Does this end your prepared rebuttal testimony?**

170 A. Yes.

VERIFICATION

I, Mike Ostrander, being first duly sworn, depose and state that I am an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Rebuttal Testimony of Mike Ostrander; that I have personal knowledge of the information stated in the foregoing Rebuttal Testimony; and that such information is true and correct to the best of my knowledge, information and belief.

Mike Ostrander

Mike Ostrander
Accountant
Illinois Commerce Commission

Subscribed and sworn to before me
this 23rd day of October, 2008.

Mary Ellen Ruffner
Notary Public



Nicor Gas Company
 Adjustment for Utility Plant - Post Test Year Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Gross Utility Plant (b)	Accumulated Depreciation (c)	Accumulated Deferred Taxes (d)	Depreciation Expense (e)
1	Amount per Staff	\$ 102,656	\$ (2,694,231)	\$ 273,091	\$ -
2	Amount per Company	<u>112,106</u>	<u>(2,694,425)</u>	<u>273,058</u>	<u>387</u>
3	Staff Proposed Adjustment (Line 1 - Line 2)	<u>\$ (9,450)</u>	<u>\$ 194</u>	<u>\$ 33</u>	<u>\$ (387)</u>

Sources:

Column (b): Staff Ex. 17.0, Schedule 17.01, page 2

Column (c): Staff Ex. 17.0, Schedule 17.01, page 3

Column (d): Staff Ex. 17.0, Schedule 17.01, page 4

Column (e): Staff Ex. 17.0, Schedule 17.01, page 5

Nicor Gas Company
 Adjustment for Utility Plant - Post Test Year Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Disallowed 2009 Plant Additions (b)	Gross Additions per Staff (c)
1	Gross Additions per Company - 2009 Average	(1) \$ 112,106	
2	Disallowed 2009 Plant Additions:		
3	Central Distribution Center and Meter Shop	\$ (13,000) (2)	
4	Northern Region Reporting Center	<u>(5,900) (2)</u>	
5	Total Disallowed 2009 Plant Additions (Line 3 + Line 4)	<u>\$ (18,900)</u>	
6	Total Disallowed 2009 Plant Additions - Average (Line 5 divided by 2)		<u>(9,450)</u>
7	Gross Additions per Staff - 2009 Average (Line 1 + Line 6)		<u>\$ 102,656</u>

Sources:

(1) Company Schedule B-5, column (Q), line 8 excluding line 7 Asset Retirement Costs of \$1,100 divided by 2

(2) Staff Ex. 10.0, p. 4

Nicor Gas Company
 Adjustment for Utility Plant - Post Test Year Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Accumulated Depreciation Adjustment (b)	Accumulated Depreciation per Staff (b)
1	Accumulated Depreciation per Company	(1) \$	(2,694,425)
2	Disallowed 2009 Plant Additions	\$ 9,450 (2)	
3	Test Year Depreciation Rate	4.1% (3)	
4	Number of Years	<u>0.5</u>	
5	Accumulated Depreciation Adjustment (Line 2 x Line 3 x Line 4)	<u>\$ 194</u>	<u>194</u>
6	Accumulated Depreciation per Staff (Line 1 + Line 4)		<u>\$ (2,694,231)</u>

Sources:

- (1) Company Schedule B-1, column (H), line 2
- (2) Staff Ex. 17.0, Schedule 17.01, page 1, column (b), line 3
- (3) Company Schedule C-12

Nicor Gas Company
 Adjustment for Utility Plant - Post Test Year Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Accumulated Deferred Taxes (b)
1	Accumulated Deferred Taxes per Company	(1) \$ 273,058
2	Accumulated Deferred Taxes Adjustment	(2) 33
3	Accumulated Deferred Taxes per Staff (Line 1 + Line 2)	\$ 273,091

Sources:

(1) Company Schedule B-1, column (F), line 12

(2) Company Ex. 26.2, Schedule 5

Nicor Gas Company
 Adjustment for Utility Plant - Post Test Year Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Amount (b)
1	Total Disallowed 2009 Plant Additions - Average	18,900 (1)
2	Test Year Depreciation Rate	4.1% (2)
3	Number of Years	<u>0.5</u>
4	Test Year Depreciation Expense per Company (Line 1 x Line 2 x Line 3)	<u>\$ 387</u>

Sources:

(1) Company Ex. 26.2, Schedule 2

(2) Company Schedule C-12

Nicor Gas Company
 Adjustment for Utility Plant - 2008 and 2009 Estimated Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Gross Utility Plant (b)	Accumulated Depreciation (c)	Accumulated Deferred Taxes (d)	Depreciation Expense (e)
1	Amount per Staff	\$ 294,461	\$ (2,693,930)	\$ 271,977	\$ -
2	Amount per Company	303,171	(2,694,231)	273,091	357
3	Staff Proposed Adjustment (Line 1 - Line 2)	\$ (8,710)	\$ 301	\$ (1,114)	\$ (357)

Sources:

Column (b): Staff Ex. 17.0, Schedule 17.02, page 2

Column (c): Staff Ex. 17.0, Schedule 17.02, page 4

Column (d): Staff Ex. 17.0, Schedule 17.02, page 5

Column (e): Staff Ex. 17.0, Schedule 17.02, page 6

Nicor Gas Company
 Adjustment for Utility Plant - 2008 and 2009 Estimated Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	2008 (b)	2009 Average (c)	Totals (b) + (c) (d)
1	Gross Additions per Company	\$ 208,606 (1)	\$ 104,015 (2)	\$ 312,621
2	Disallowed 2009 Plant Additions	-	(9,450) (3)	(9,450)
3	Adjusted Gross Additions per Company (Line 1 + Line 2)	208,606	94,565	303,171
4	Four Year Average Percentage Under Budget	-2.87% (4)	-2.87% (4)	
5	Adjustment for Average Percentage Under Budget (Line 3 x Line 4)	(5,993)	(2,717)	(8,710)
7	Gross Additions per Staff (Line 3 + Line 5)	\$ 202,613	\$ 91,848	\$ 294,461

Sources:

- (1) Company Schedule B-5, column (M), line 13
- (2) Company Schedule B-5, column (Q), line 13 divided by 2
- (3) Staff Ex. 17.0, Schedule 17.01, page 1, column (b), line 3
- (4) Staff Ex. 17.0, Schedule 17.02, page 3

Nicor Gas Company
 Adjustment for Utility Plant - 2008 and 2009 Estimated Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Year (a)	Actual Plant Additions (b)	Budget Plant Additions (c)	Variance Percentage (b) - (c) / (c) (d)
1	2004 (1)	175,138	181,307	-3.40%
2	2005 (2)	186,425	194,727	-4.26%
3	2006 (2)	164,546	165,656	-0.67%
4	2007 (2)	159,022	164,204	-3.16%
5	Four Year Average Percentage Under Budget			<u>-2.87%</u>

Sources:

(1) Response to Staff fieldwork oral data request 13, Docket No. 04-0779.

(2) Response to Staff data request JMO 4.01.

Nicor Gas Company
 Adjustment for Utility Plant - 2008 and 2009 Estimated Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Accumulated Depreciation Adjustment		Accumulated Depreciation per Staff (d)
		2008 (b)	2009 Average (c)	
1	Adjusted Accumulated Depreciation per Company			(1) \$ (2,694,231)
2	Adjustment for Average Percentage Under Budget	\$ 5,993	(2) \$ 2,717	(2)
3	Test Year Depreciation Rate	4.1%	(3) 4.1%	(3)
4	Number of Years	1.0	0.5	
5	Accumulated Depreciation Adjustment (Line 2 x Line 3 x Line 4)	\$ 246	\$ 56	301
6	Accumulated Depreciation per Staff (Line 1 + Line 5)			\$ (2,693,930)

Sources:

- (1) Company Schedule B-1, column (H), line 2 less adjustment per Staff Ex. 17.0, Schedule 17.01, page 1, column (c), line 3 (\$2,694,425 - \$194)
- (2) Staff Ex. 17.0, Schedule 17.02, page 2, line 5
- (3) Company Schedule C-12

Nicor Gas Company
 Adjustment for Utility Plant - 2008 and 2009 Estimated Plant Additions
 For the Test Year Ended December 31, 2009
 (In Thousands)

Line No.	Description (a)	Accumulated Deferred Taxes (b)
1	Adjusted Accumulated Deferred Taxes per Company	(1) \$ 273,091
2	Accumulated Deferred Taxes Adjustment	(2) <u>(1,114)</u>
3	Accumulated Deferred Taxes per Staff (Line 1 + Line 2)	<u>\$ 271,977</u>

Sources:

- (1) Company Schedule B-1, column (F), line 12 plus adjustment per Staff Ex. 17.0, Schedule 17.01, page 1, column (d), line 3 (\$273,058 + \$33)
- (2) Company Ex. 26.2, Schedule 6

Nicor Gas Company
 Adjustment for Utility Plant - 2008 and 2009 Estimated Plant Additions
 For the Test Year Ended December 31, 2009
 (in Thousands)

Line No.	Description (a)	2008 (b)	2009 (c)	Totals (b) + (c) (d)
1	Adjustment for Average Percentage Under Budget	5,993 (1)	5,434 (1)	
2	Test Year Depreciation Rate	4.1% (2)	4.1% (2)	
3	Number of Years	1.0	0.5	
4	Test Year Depreciation Expense per Company (Line 1 x Line 2 x Line 3)	<u>\$ 246</u>	<u>\$ 111</u>	<u>\$ 357</u>

Sources:

- (1) Company Ex. 26.2, Schedule 3
- (2) Company Schedule C-12