

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	No. 09-_____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of
EDWARD DOERK
Vice President, Gas Operations
The Peoples Gas Light and Coke Company
and
North Shore Gas Company

On Behalf of
North Shore Gas Company

February 13, 2009

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification Of Witness**

3 Q. Please state your name and business address.

4 A. Edward Doerk. 1241 W. Division St., Chicago, IL 60642.

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

6 A. I am employed by The Peoples Gas Light and Coke Company (“Peoples Gas”). My
7 current title is Vice President, Gas Operations, for both Peoples Gas and North Shore Gas
8 Company (“North Shore”).

9 **B. Purpose Of Testimony**

10 Q. What is the purpose of your testimony?

11 A. The purpose of my testimony, in brief, is, first, to describe North Shore’s physical system
12 and operations and the manner in which North Shore ensures that its capital expenditures
13 relating to its physical system are prudently incurred. As part of this discussion, I
14 describe the key components of Gross Utility Plant included in rate base. I also confirm
15 that the Gross Utility Plant assets included in rate base, including assets added since the
16 last general rate case, ICC Docket Nos. 07-0241/07-0242 (cons.), are used and useful and
17 were prudently acquired and placed into service at a reasonable cost.

18 Second, I present support for North Shore’s major capital projects from the year
19 2007 through the test year, 2010. I address whether these investments have been
20 prudently undertaken, are reasonable in cost, and are used and useful in providing utility
21 service. Third, I describe North Shore’s proposed additions to the test year rate base.

22 Finally, I provide testimony demonstrating that North Shore is complying with
23 Condition 22 of Appendix A to the Illinois Commerce Commission’s (the “Commission”
24 or “ICC”) final Order in ICC Docket No. 06-0540.

25 **C. Summary of Conclusions**

26 Q. Please summarize the conclusions you make in your direct testimony.

27 A. I conclude that the six projects I discuss in my testimony are or will be prudently
28 undertaken, reasonable in cost, and are used and useful in providing utility services to
29 customers served by North Shore.

30 As to Gross Utility Plant, I also conclude that all of North Shore’s properties
31 recorded in its property accounts, including assets added since the 2006 Rate Case, were
32 prudently acquired, reasonable in cost, and used and useful in rendering of utility service.

33 **D. Itemized Attachments to Direct Testimony**

34 Q. Are there any attachments to your testimony?

35 A. Yes. North Shore Exhibit (“Ex.”) ED-1.1 is a copy of Schedule F-4 of North Shore’s
36 required filings, showing major additions to capital.

37 **E. Background And Experience**

38 Q. Please summarize your educational background and experience.

39 A. I graduated from Bradley University in 1978 with a Bachelor of Science in Mechanical
40 Engineering. I have worked for Peoples Energy Corporation (“Peoples Energy”) and its
41 utility subsidiaries for the past 30 years and have held many positions with increasing
42 responsibility within gas operations. Prior to my current position, I was Vice President of
43 North Shore. I assumed my current position in October of 2004.

44 Q. What are your responsibilities in your current position?

45 A. I am responsible for all gas distribution utility field operations including customer
46 service, distribution system maintenance, and construction.

47 **II. NORTH SHORE'S PHYSICAL SYSTEM**

48 Q. Please describe North Shore's physical system.

49 A. North Shore is a local distribution company selling and/or distributing gas to
50 approximately 158,000 customers in 54 communities located in a 275 square mile area of
51 northeastern Illinois. North Shore's distribution system consists of approximately
52 2,280 miles of gas distribution mains. North Shore owns approximately 95 miles of
53 transmission lines. North Shore's distribution system is most commonly operated at a
54 pressure of 45 pounds per square inch, while the transmission system operates at a
55 pressure of 250 pounds per square inch. While North Shore does not own any storage
56 fields, it does purchase storage services from Peoples Gas, pursuant to the Underground
57 Gas Storage Services Agreement, approved by the Illinois Commerce Commission in
58 Docket 87-0401, and from two interstate pipelines, Natural Gas Pipeline Company of
59 America and ANR Pipeline, under rate schedules approved by the Federal Energy
60 Regulatory Commission. In addition, North Shore owns a liquid propane production
61 facility used for peaking purposes.

62 Q. How would you describe the physical configuration of the North Shore system?

63 A. The physical configuration of North Shore's system is a dispersed/multiple city-gate,
64 integrated transmission/distribution and multi pressure-based system.

65 Q. What considerations have gone into the design of the North Shore system?

66 A. North Shore's system is designed to provide gas service to all customers entitled to be
67 attached to the system, to deliver volumes of natural gas to all sales and transportation
68 customers, and to meet the aggregate peak design day capacity requirements of all
69 customers entitled to service on the peak day. A gas utility system sized only to
70 accommodate average gas demands would not be able to meet system peak demands.

71 **A. Gross Utility Plant**

72 Q. Are you familiar with the major categories of plant in North Shore's rate base?

73 A. Yes. The major categories of utility plant in North Shore's rate base are Distribution,
74 Underground Storage, Transmission, General, Production, Recoverable Natural Gas, and
75 Construction Work in Progress ("CWIP"). These are summarized on Schedule B-5 of
76 North Shore Ex. JH-1.1, sponsored by North Shore witness John Hengtgen (North Shore
77 Ex. JH-1.0), and described in his testimony. That schedule sets forth gross additions,
78 retirements and transfers to North Shore's plant in service and concludes with plant
79 balances at December 31, 2010 (Schedule B-5, page 2, Column J). North Shore's total
80 plant in service, Account 101 plus Completed Construction Not Classified, Account 106,
81 is \$426,205,000 at December 31, 2010 (Schedule B-5, page 2, Column J, line 7).

82 Q. In your opinion, is the Plant represented on Schedule B-5 used and useful in North
83 Shore's rendering of utility service?

84 A. Yes. All of that Plant is used and useful.

85 Q. Please describe North Shore's test year Distribution Plant.

86 A. North Shore's Distribution Plant was \$340,944,000 (Schedule B-5, page 2, Column J,
87 line 1) at the end of the test year. Distribution Plant is comprised of 2,280 miles of

88 distribution mains and related facilities, such as service pipes, regulators, valves and
89 meters. Distribution facilities are typically connected directly to our customers.

90 Q. How is the Distribution Plant used to provide service to the North Shore's customers?

91 A. Customers are served directly by the distribution system through company owned service
92 lines linking the distribution mains with customer owned piping.

93 Q. Please describe North Shore's test year Transmission Plant.

94 A. North Shore's Transmission Plant was \$29,186,000 (Schedule B-5, page 2, Column J,
95 line 3) at the end of the test year. Transmission Plant consists of the larger size and
96 higher-pressure pipelines and related facilities (e.g. valves, and regulators) typically used
97 to move gas from our interconnections with the interstate pipelines and throughout our
98 service territory. Unlike Distribution Plant, transmission facilities are not typically
99 connected directly to our customers' service.

100 Q. How is the Transmission Plant used to provide service to North Shore's customers?

101 A. As I testified, North Shore's Transmission Plant is used to move gas from the interstate
102 pipeline suppliers to our local distribution systems, and is useful to North Shore's
103 customers in performing those functions. Indeed, these functions are essential if North
104 Shore is to provide gas to its customers and essential to its use of its assets. The balance
105 of North Shore's Transmission Plant has not changed significantly since North Shore's
106 rate base was approved in its last rate case.

107 Q. What is General Plant?

108 A. While I am not a plant accountant, I understand at the practical level that General Plant
109 consists of assets that are used in the provision of gas service, but that are not subject to

110 being specifically classified as Distribution, Transmission, Production, or Storage.
111 Illustrative examples of General Plant include real estate North Shore owns which is not
112 part of a specific Distribution, Transmission, or Storage asset, vehicles used in the
113 performance of various North Shore functions (automobiles, backhoes, etc.), and tangible
114 computer equipment.

115 Q. How is General Plant used and useful in the provision of natural gas utility services?

116 A. Assets included in General Plant support the provision of our utility services. We would
117 not be able to provide those services without our General Plant assets.

118 Q. Does North Shore have Underground Storage Plant?

119 A. North Shore does not have any underground storage. However, North Shore does lease
120 storage services from other companies. The unrecoverable cushion gas required for one
121 of these services is classified as Underground Storage Plant. The balance of North
122 Shore's Underground Storage Plant has not changed since North Shore's rate base was
123 approved in its last rate case.

124 Q. What is Recoverable Natural Gas Plant?

125 A. That is recoverable cushion gas assigned to North Shore. The balance of this plant
126 account has not changed since North Shore's rate base was approved in its last rate case.

127 Q. Does the North Shore have Production Plant?

128 A. Yes. We maintain a propane-air facility that can inject a propane-air mixture into our
129 pipes.

130 Q. How is the propane-air facility included in Production Plant used and useful in serving
131 customers?

132 A. The propane-air facility is used to satisfy peak day deliverability. If needed, North
133 Shore's Gas Supply Department contacts us and instructs us to run the facility.

134 Q. What is CWIP?

135 A. CWIP represents the ongoing projects under construction at a given time. We are
136 projecting that there will be only \$194,000 in CWIP during the test year.

137 **B. Cost Control and Investment**

138 Q. Please describe how North Shore has controlled the capital cost of its Transmission and
139 Distribution functions.

140 A. In addition to its general processes for deciding to make and manage capital investments,
141 North Shore has implemented many cost saving initiatives in its operations, such as
142 directional boring and the use of coiled plastic pipe that have contributed to the extended
143 period of stable rates. Directional boring has reduced main installation costs by
144 minimizing restoration costs through the elimination of open cut trenches. Labor costs of
145 installation are also reduced since much less excavating is required. The use of coiled
146 plastic pipe has also contributed to lower main installation costs by installing greater
147 lengths of continuous pipe segments. Longer lengths of continuous pipe segments
148 reduces the number of field fusion joints required and contributes to overall lower main
149 installation costs.

150 Q. Please briefly describe how North Shore decides how to make capital investments.

151 A. Each fiscal year, North Shore prepares a capital expenditures budget for the upcoming
152 fiscal year, setting forth recommendations for capital expenditures for major categories of
153 plant. The budget is scrutinized at many levels and ultimately submitted to the Board of
154 Directors for its approval.

155 Q. Once the capital budget is approved, how does North Shore monitor its capital
156 expenditures?

157 A. After the Capital Budget is approved, aggregate expenditures are tracked monthly and
158 reconciled with the Capital Budget. Forecast for expenditures are adjusted based on
159 actuals to ensure compliance with the budget targets.

160 Q. Are you familiar with Condition 22 in Appendix A of the Commission's final Order in
161 ICC Docket No. 06-0540?

162 A. Yes, I am. Condition 22 states that the Gas Companies, meaning Peoples Gas and North
163 Shore, will maintain their respective capital expenditure budgets and operation and
164 maintenance budgets associated with their physical gas systems, specifically, distribution,
165 transmission, measurement, and storage, for the aggregate period 2007 through 2009 at
166 levels that will equal or exceed the actual capital and operation and maintenance
167 expenditures, excluding unusual items of a non-recurring nature, by each of the two
168 utilities during the aggregate three-year period of fiscal 2004 through fiscal 2006.

169 Q. To date, is North Shore in compliance with this condition?

170 A. Yes. For 2007 and 2008, North Shore's cumulative spending on O&M has already
171 achieved 84%, of the cumulative 2004-2006 O&M spend. Similarly for 2007 and 2008,

172 North Shore's cumulative spending on capital has already achieved 67% of 2004-2006
173 cumulative capital spend.

174 **III. SUMMARY OF MAJOR CAPITAL PROJECTS**

175 Q. Please describe North Shore Ex. ED-1.1

176 A. North Shore Ex. ED-1.1 is Schedule F-4 of the Commission's Standard Filing
177 Requirements and sets forth information about North Shore's major projects for fiscal
178 years 2007 through 2010.

179 Q. For purposes of this exhibit, how did you define "major project"?

180 A. By "major project," I mean those additions to rate base meeting the definition contained
181 in 83 Illinois Administrative Code Part 285.6100 for Schedule F-4. This definition varies
182 by size of utility. For North Shore, a major project is one with a cost greater than the
183 higher of 0.2% of net plant or \$1,000,000. North Shore's net plant for the test year is
184 approximately \$233 million. Therefore, for North Shore, a major project would be one
185 that costs more than \$1,000,000.

186 Q. Using this definition, how many major projects did North Shore identify in North Shore
187 Ex. ED-1.1?

188 A. Six. They are all public improvement projects:

- 189 1. IL Route 60 across IL Tollway (I-94),
- 190 2. US Route 45 (from IL Route 137 to IL Route 120),
- 191 3. Lake Cook Rd. (from IL Route 43 to Pfungsten Rd.),
- 192 4. US Route 45 (from IL Route 120 to Washington Street),
- 193 5. IL Route 22 (from US Route 41 to Lakeside Dr.),
- 194 6. Washington St. (Hunt Club Rd. to IL Route 21)

195 Q. What is a Public Improvement project?

196 A. What we call a Public Improvement project is one that is made necessary because of a
197 state or municipal public works project that affects the location of our mains. Many of
198 the mains in our service territory are located, by permission, in public rights-of-way
199 alongside roadways. In the typical case, including all six of these projects, the public
200 works project involves the improvement or widening of the existing roadway, which
201 causes a physical conflict with the current location of our main.

202 Q. What alternatives does North Shore consider when a public improvement project is
203 announced?

204 A. The alternatives are few. Generally, our only alternative is to take the main out of
205 service, or to relocate it alongside the widened roadway. If our engineers determine that
206 the system would be negatively impacted by elimination of the main, we relocate it. The
207 replacement mains are often size for size, but as long as we are doing the construction,
208 we do an analysis to determine whether a smaller or larger size would be appropriate and
209 least cost given the demands on the system.

210 **A. IL Route 60 Across IL Tollway (I-94)**

211 Q. Please describe the IL Route 60 across IL Tollway (I-94) Public Improvement project.

212 A. This project involved relocating 1,781 feet of 24-inch high-pressure gas main in IL Route
213 60 from Riverwoods Road to Field Drive in Libertyville Township. The project was
214 required due to bridge reconstruction and widening necessitated by the Illinois Tollway
215 widening and reconstruction project that runs through Cook and Lake Counties. A
216 24-inch main was installed to replace existing 24-inch main because this line is a major
217 feed, bringing gas into our service territory from our gate stations located to the west of

218 the tollway. This project was completed in 2007. The cost of the project was
219 \$1,362,888.

220 Q. Was the investment in the IL Route 60 across IL Tollway (I-94) Public Improvement
221 project prudently undertaken, reasonable in cost, and used and useful in providing utility
222 service?

223 A. Yes. Engineering studies justified the need to replace size for size in this situation. The
224 project was completed in conjunction with the Illinois Tollway's improvement to
225 minimize additional restoration and future inconveniences to customers and traffic
226 patterns.

227 **B . US Route 45 (from IL Route 137 to IL Route 120)**

228 Q. Please describe the US Route 45 (from IL Route 137 to IL Route 120) Public
229 Improvement project.

230 A. This project involves relocating approximately 1,965 feet of 24-inch high-pressure, and
231 replace approximately 5,730 feet of 10-inch high-pressure with 16-inch high-pressure gas
232 main; and approximately 2,530 feet of 6-inch medium pressure with 4-inch medium-
233 pressure gas main located along US Route 45 in Libertyville, Warren and Avon
234 Townships. The cost of the project is estimated at approximately \$5,200,000. This
235 project was initiated due to conflicts with IDOT road improvements and widening along
236 US Route 45, scheduled to occur in spring 2009. The 24-inch main will be replaced size
237 for size due to the need to maintain this vital feed to supply gas to the eastern portion of
238 our service territory by way of our 24-inch main down Casey Road.

239 Q. Will the investment in the US Route 45 (from IL Route 137 to IL Route 120) Public
240 Improvement project be prudently undertaken, reasonable in cost, and used and useful in
241 providing utility service?

242 A. Yes. Engineering studies, which modeled future gas load growth projections in the
243 northwest corner of the territory, determined that a 16-inch high-pressure gas main
244 should be installed to replace the existing 10-inch main in US Route 45. Additionally,
245 the increased size will help enhance gas flows between our Edwards Road Gate Station
246 and Grayslake Gate Station as future phases of US Route 45 road improvements and
247 North Shore Gas system improvements continue in a northerly path. Engineering studies
248 supported reducing the size of the medium pressure pipe replacement from 6 inches to
249 4 inches to maintain service off the medium pressure system.

250 **C. Lake Cook Rd. (from IL Route 43 to Pfingsten Rd.)**

251 Q. Please describe the Lake Cook Road (from IL Route 43 to Pfingsten Road) Public
252 Improvement project.

253 A. This project involves relocating approximately 3,000 feet of 16-inch high pressure gas
254 main and 3,000 feet of 8-inch medium pressure gas main in Lake Cook Road, Northfield
255 and Deerfield Townships. The cost of the project is estimated at approximately
256 \$2,500,000, based on minimal relocation requirements from preliminary designs.
257 However, this estimate could change significantly depending on dictates from Cook
258 County as to where our relocation path is proposed. Final design plans and pre-
259 construction analysis is scheduled to begin at the end of February 2009. This project was
260 initiated to eliminate conflicts with Cook County reconstruction and widening of Lake
261 Cook Road between IL Route 43 and Pfingsten Road, scheduled to occur in spring 2009.

262 Q. Will the investment in the Lake Cook Road (from IL Route 43 to Pfingsten Road) Public
263 Improvement project be prudently undertaken, reasonable in cost, and used and useful in
264 providing utility service?

265 A. Yes. Replacement is needed to maintain the integrity of the gas distribution system.
266 Engineering studies justify the need to replace size for size in this situation. The project
267 will be completed in conjunction with the Cook County improvement to minimize
268 additional restoration and future inconveniences to customers and traffic patterns.

269 **D. US Route 45 (from IL Route 120 to Washington Street)**

270 Q. Please describe the US Route 45 (from IL Route 120 to Washington Street) Public
271 Improvement project.

272 A. This project involves relocating approximately 8,000 feet of 10-inch high pressure gas
273 main and 8,000 feet of 6-inch high pressure gas main in US Route 45, Avon and Warren
274 Townships. It was initiated due to conflicts with IDOT road improvements and widening
275 along US Route 45, scheduled to be done in 2010. The cost of the project is estimated at
276 approximately \$4,500,000.

277 Q. Will the investment in the US Route 45 (from IL Route 120 to Washington Street) Public
278 Improvement project be prudently undertaken, reasonable in cost, and used and useful in
279 providing utility service?

280 A. Yes. Engineering studies, modeling future gas load growth projections in the northwest
281 corridor of the territory, determined that 16-inch high-pressure gas main should be
282 installed to replace the existing 10-inch and 6-inch high pressure gas mains in US Route
283 45. Additionally, the increased size will help enhance gas flows between our Edwards

284 Road Gate Station and Grayslake Gate Station as future phases of US Route 45 road
285 improvements and North Shore Gas system improvements continue north.

286 **E. IL Route 22 (from US Route 41 to Lakeside Dr.)**

287 Q. Please describe the IL Route 22 (from US Route 41 to Lakeside Drive) Public
288 Improvement project.

289 A. This project involves relocating approximately 14,000 feet of 6-inch medium pressure
290 gas main in IL Route 22, in Deerfield Township. The cost of the project is estimated at
291 approximately \$2,000,000. This project was initiated to eliminate conflicts with an IDOT
292 road improvement and widening along IL Route 22, scheduled to be done between
293 2010-2014.

294 Q. Will the investment in the IL Route 22 (from US Route 41 to Lakeside Drive) Public
295 Improvement project be prudently undertaken, reasonable in cost, and used and useful in
296 providing utility service?

297 A. Yes. Engineering studies justified the need to replace size for size in this situation. This
298 is a continuation of previous year's phases of the IL Route 22 road widening projects in
299 which North Shore Gas also relocated gas mains due to conflicts with reconstruction.
300 The project will be completed in conjunction with the IDOT improvement to minimize
301 additional restoration and future inconveniences to customers and traffic patterns.

302 **F. Washington St. (from Hunt Club Rd. to IL. Route 21)**

303 Q. Please describe the Washington Street (from Hunt Club Road to IL Route 21) Public
304 Improvement project.

305 A. This project involves relocating approximately 9,000 feet of 6-inch medium pressure gas
306 main in Washington Street, Warren Township. The cost of the project is estimated at
307 approximately \$1,000,000 based on relocation requirements from preliminary designs.
308 This project was initiated due to conflicts with Lake County Department of
309 Transportation road improvements and widening along Washington Street, scheduled to
310 be done in 2010.

311 Q. Will the investment in the Washington Street (from Hunt Club Road to IL Route 21)
312 Public Improvement project be prudently undertaken, reasonable in cost, and used and
313 useful in providing utility service?

314 A. Yes. A replacement is needed to maintain the integrity of the gas distribution system.
315 Engineering studies justify the need to replace size for size in this situation. The project
316 will be completed in conjunction with the Lake County Department of Transportation
317 improvement to minimize additional restoration and future inconveniences to customers
318 and traffic patterns.

319 **IV. TEST YEAR RATE BASE ADDITIONS**

320 Q. Are you familiar with the additions to plant assumed for the 2010 test year rate base?

321 A. Yes. I will address the additions of plant included in the test year rate base in the
322 categories of Distribution, General, and Production. North Shore is not proposing
323 significant changes in Underground Storage, Transmission, and Recoverable Natural Gas.

324 Q. Please describe the proposed additions to Distribution Plant.

325 A. Most of the increase in Distribution Plant is related to public improvement projects,
326 including the projects detailed earlier in my testimony. These projects are needed to

327 maintain our ability to deliver adequate and reliable service to our customers. These
328 plant additions will be prudently acquired at a reasonable cost, and are or will be used
329 and useful in providing service to our customers.

330 Q. Please describe the proposed additions to General Plant.

331 A. First, as noted on Schedule B-5, page 1, note 5 (attached to Mr. Hengtgen's testimony as
332 North Shore Ex. JH-1.1), approximately \$172,000 of existing Distribution Plant was
333 reclassified by the plant accountants as General Plant. Second, the most significant
334 additions to plant include the replacement of retired transportation and power equipment
335 including trucks, car, and backhoes. Other additions include replacement computers,
336 improvements at office and reporting center, and purchase of shop and garage equipment
337 and tools. These plant additions will be prudently acquired at a reasonable cost, and are
338 or will be used and useful in providing service to our customers.

339 Q. Please describe the proposed additions to Production Plant?

340 A. There are three factors that increase our production plant between 2006 and 2010. First,
341 as noted on Schedule B-5, page 1, note 5 (attached to Mr. Hengtgen's testimony as North
342 Shore Ex. JH-1.1), approximately \$528,000 of existing Distribution Plant was reclassified
343 by the plant accountants as Production Plant. Second, in 2007, we rebuilt four propane
344 pumps at the propane-air facility, which resulted in plant additions of \$159,000 and
345 retirements totaling \$56,000. Third, in 2008, a steam vaporizer was replaced at the
346 propane-air facility for approximately \$393,000. Also work was started on a new
347 supervisor control and data acquisition system for approximately \$100,000. Finally, we
348 will add approximately \$310,000 in new Production Plant by the end of 2010. Additions
349 are all related to the propane – air facility and include finishing work on the replacement

350 of the supervisor control and data acquisition system for approximately \$80,000, and
351 installation of a new emergency electric generator for 150,000. Other smaller projects
352 account for the remaining additions. These additions were or will be prudently acquired
353 at a reasonable cost, and are or will be used and useful in providing service to our
354 customers.

355 Q. Do you anticipate any changes in the way North Shore decides how to make capital
356 investments and how those expenditures are monitored?

357 A. No. I expect that North Shore will continue to recommend a capital expenditures budget
358 for the upcoming fiscal year, setting forth recommendations for capital expenditures for
359 major categories of plant. The budget will be scrutinized at many levels and ultimately
360 submitted to the Board of Directors for its approval. Aggregate expenditures will be
361 tracked monthly and reconciled with the Capital Budget. Forecast for expenditures will
362 be adjusted based on actuals to ensure compliance with the budget targets.

363 Q. Does this conclude your direct testimony in this proceeding?

364 A. Yes it does.