STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

THE PEOPLES GAS LIGHT	:	
AND COKE COMPANY	:	
	:	No. 09-____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of

SHARON MOY

Rate Case Consultant, Regulatory Affairs
Integrys Business Support, LLC

On Behalf of
The Peoples Gas Light and Coke Company

February 13, 2009

TABLE OF CONTENTS

			Page
I.	INTRODUCTION AND BACKGROUND		1
	A.	Witness Introduction	1
	B.	Purpose of Testimony	1
	C.	Summary of Conclusions	2
	D.	Itemized Attachments to Direct Testimony	3
	E.	Background and Experience	3
II.	TEST YEAR		4
III.	REVENUE REQUIREMENT		5
IV.	OPERATING INCOME AND EXPENSES		8
	A.	Overall Operating Income Requirement	8
	B.	Adjustments to Operating Income and Expenses	10
V.	GROSS REVENUE CONVERSION FACTOR		15

I. INTRODUCTION AND BACKGROUND

A. Witness Introduction

Q. Please state your name and business address.

A. My name is Sharon Moy. My business address is Integrys Business Support, LLC ("IBS"), 130 East Randolph Drive, Chicago, IL 60601.

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

A. I am employed by IBS. My present position is Rate Case Consultant in the Regulatory Affairs Division of IBS.

B. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support certain components of The Peoples Gas Light and Coke Company's ("Peoples Gas") request for a general increase in rates. The components that I will be addressing are as follows: the test year, the revenue requirement, operating income and expenses, the adjustments to operating income and expenses, and the Gross Revenue Conversion Factor. Other witnesses testifying on behalf of Peoples Gas also support those components in various respects.

Q. How is your testimony organized?

A. My testimony is divided into the following areas:

(1) Peoples Gas' selection of calendar year 2010 (January 1, 2010, through and including December 31, 2010) as a "future" test year, with certain appropriate adjustments for purposes of ratemaking in this proceeding;

(2) the appropriate amount of Peoples Gas' revenue requirement, reflecting

adjustments;

(3) Peoples Gas' operating income and expenses for purposes of the revenue requirement; and

(4) Peoples Gas' Gross Revenue Conversion Factor.

C. <u>Summary of Conclusions</u>

Q. Please summarize the conclusions of your direct testimony.

A. In brief, the conclusions of my direct testimony are as follows:

(1) Peoples Gas' selection of calendar year 2010, as adjusted, as a "future" test year, consistent with the Illinois Commerce Commission's (the "Commission" or "ICC") rules governing a future test year, is proper and reasonable.

(2) Peoples Gas' proposed and appropriate revenue requirement, excluding the Cost of Gas, Environmental Activities costs, and Enhanced Efficiency Program costs recovered through charges under Rider 2, Rider 11, and Rider EEP, respectively, that are set independently of this rate filing, and after reflecting other adjustments, is $624,054,000. Based on the information provided in the testimony of other Peoples Gas witnesses and herein, the proposed revenue requirement is just and reasonable, and is the amount required for Peoples Gas to provide safe, adequate, and reliable gas service to its customers. Based on the foregoing, Peoples Gas requires additional base rate revenues (over revenues forecasted under present rates) of $161,920,000. In other words, that is Peoples Gas' cost recovery shortfall under current rates for the test year.

(3) Peoples Gas' proposed and appropriate operating income, with certain appropriate adjustments, after reflecting income taxes, is $130,392,000.

(4) Peoples Gas' properly and correctly calculated Gross Revenue Conversion Factor is 1.702867.

Q. What do you mean by the term "future test year"?

A. I use the term "future test year" in accordance with my understanding of that term, as a non-lawyer, as it is defined in Section 287.20 of Part 287 of the Commission's rules ("Part 287"), 83 Illinois Administrative ("Ill. Admin.") Code § 287.20.

D. Itemized Attachments to Direct Testimony

Q. Are you sponsoring any attachments to your direct testimony?

A. Yes. I am the sponsor of Peoples Gas Exhibit ("Ex.") SM-1.1, which includes copies of the following Schedules that have been filed by Peoples Gas pursuant to Part 285 of the Commission's rules (83 Ill. Admin. Code Part 285): A-1, A-2, A-2.1, A-4, C-1, C-2, C-2.1, C-2.2, C-2.3, C-2.4, C-2.5, C-2.6, C-2.7, C-2.8, C-2.9, C-2.10, C-2.11, C-2.12, C-2.13, C-2.14, and C-2.15.

E. Background and Experience

Q. What are your responsibilities in your present position?

A. My responsibilities include managing and coordinating the preparation and review of testimonies and exhibits pertaining to rate case filings for Peoples Gas and North Shore Gas Company ("North Shore") pursuant to provisions of Parts 285 and 286 of the Commission's rules (83 Ill. Admin. Code Parts 285 and 286). In addition, I prepare and analyze the jurisdictional revenue requirement financial models for Peoples Gas and North Shore.

Q. Please outline your educational background and business experience.

A. In 1996, I received a Bachelor of Science degree, majoring in Accounting, from the University of Illinois at Urbana-Champaign. In 1997, I passed the Certified Public Accountant examination in the State of Illinois. In 2001, I received a Masters of Business Administration, with Distinction, from Keller Graduate School of Management. After graduating from the University of Illinois in 1996, I began my career with Peoples Gas in the General Accounting Department. In 1997, I transferred to Peoples Gas' State Regulatory Affairs Department and worked as a regulatory accountant through 2006. In 2007, WPS Resources Corporation became the parent company of Peoples Energy Corporation, which in turn is the parent corporation of Peoples Gas, and WPS Resources Corporation became known as Integrys Energy Group, Inc. ("Integrys"). As a result of the merger and the subsequent ICC-approved formation of IBS as a subsidiary of Integrys, my title was changed to Rate Case Consultant in the Regulatory Affairs Division of IBS.

II. <u>TEST YEAR</u>

Q. What test year does Peoples Gas propose in this proceeding?

A. Peoples Gas proposes calendar year 2010, twelve months ending December 31, 2010, as its future test year, with appropriate adjustments.

Q. Is calendar year 2010, subject to applicable adjustments, an appropriate test year?

A. Yes. The twelve month period ending December 31, 2010, corresponds with Peoples Gas' year for financial accounting and income tax purposes (its fiscal year). Calendar year 2010 is a "consecutive 12 month period of forecasted data beginning no earlier than the date new tariffs are filed and ending no later than 24 months after the date new tariffs are filed" consistent with 83 Ill. Admin. Code § 287.20(b). Peoples Gas witness

Christine Gregor (Peoples Gas Ex. CMG-1.0) sponsors exhibits that include a statement of operating income for the forecasted future test year and supporting detail. Later in my testimony, I will discuss ratemaking adjustments applicable to the forecasted future test year in calculating Peoples Gas' operating income and expenses for the test year, as adjusted.

III. REVENUE REQUIREMENT

Q. What is Peoples Gas' proposed revenue requirement?

A. Peoples Gas' proposed revenue requirement, after reflecting certain adjustments as well as excluding the Cost of Gas, Environmental Activities and Enhanced Efficiency Program costs recovered through charges under Rider 2, Rider 11, and Rider EEP, respectively, that are set independently of this rate filing, is $624,054,000. This amount is the sum of People Gas' proposed net operating income requirement of $130,392,000 plus its proposed operating expenses of $493,662,000, as shown on Schedule C-1 of Peoples Gas Ex. SM-1.1 (column G, line 22 plus line 23).

Q. Do you have an opinion as to whether the proposed revenue requirement that Peoples Gas seeks to recover through base rates in this proceeding is just and reasonable?

A. Yes, I do. The proposed revenue requirement sought to be recovered through the base rates in this proceeding is just and reasonable based on the information provided by the other witnesses testifying on behalf of Peoples Gas and herein.

Q. What is the revenue deficiency under existing rates?

A. The current rates result in an estimated revenue deficiency (a cost recovery shortfall) of $161,920,000.

Q. What are the factors driving the cost recovery shortfall?

A. Peoples Gas witness James Schott's testimony (Peoples Gas Ex. JFS-1.0) provides a high level overview of the factors driving Peoples Gas' cost recovery shortfall. In addition to my testimony, other witnesses testifying on behalf of Peoples Gas also support components of its proposed rate base and its revenue requirement. Peoples Gas witness Christine Gregor (Peoples Gas Ex. CMG-1.0) also address certain variances. I sponsor Schedule A-4 in Peoples Gas Ex. SM-1.1, which sets forth comparative data between Peoples Gas' current filing for rate relief and its previous rate Order, in ICC Docket Nos. 07-0241/07-0242 Consolidated, dated February 5, 2008.

Q. How was the amount of Peoples Gas' revenue deficiency (cost under-recovery) determined?

A. Appropriate amounts for rate base, operating income and expenses, and overall rate of return on rate base for the test year were determined. Each of these calculations is explained or reflected in my testimony. Peoples Gas witnesses John Hengtgen, Edward Doerk, Thomas Puracchio, Christine Gregor, Bradley Johnson, and Paul Moul (Peoples Gas Exs. JH-1.0, ED-1.0, TLP-1.0, CMG-1.0, BAJ-1.0, and PRM-1.0, respectively) provide more detailed explanations of the various rate base, major projects, operating income, and rate of return components.

The overall rate of return is applied to rate base to arrive at Peoples Gas' proposed operating income requirement for the test year. The difference between Peoples Gas' proposed operating income requirement for the test year and its forecasted operating income under present rates, as adjusted, yields the operating income deficiency for the test year. The operating income deficiency is "grossed-up" for the effect of income taxes

and the uncollectibles factor. This is accomplished by multiplying the operating income deficiency by the Gross Revenue Conversion Factor. That product results in Peoples Gas' revenue deficiency.

These calculations are shown in Schedule A-2 of Peoples Gas Ex. SM-1.1.

Q. What rate base is reflected in Peoples Gas' revenue requirement?

A. Peoples Gas' rate base of $1,396,058,000 at December 31, 2010, as adjusted, is reflected in the calculation of the revenue requirement supporting the rates filed in this case. Mr. Hengtgen discusses the details of rate base in his testimony. Mr. Doerk and Mr. Puracchio also support key components of the rate base in their testimonies.

Q. What overall rate of return on rate base is reflected in Peoples Gas' revenue requirement?

A. The overall rate of return on rate base allowed in this case should be Peoples Gas' overall cost of capital (its overall weighted average cost of capital) based on its proposed capital structure. Peoples Gas' projected overall cost of capital for calendar year 2010 is shown in Schedule D-1 of Peoples Gas Ex. BAJ-1.1, sponsored by Mr. Johnson. Mr. Johnson's testimony (Peoples Gas Ex. BAJ-1.0) supports the capital structure and the embedded cost of long-term debt ("ECLTD") incorporated in the calculation of its overall cost of capital.

Peoples Gas' overall cost of capital and thus its required rate of return on rate base is 9.34%, which is 158 basis points more than the current approved rate of return of 7.76% that was approved by the Commission in Peoples Gas' most recent rate Order (ICC Docket Nos. 07-0241/07-0242 Consolidated). The cost of capital and rate of return on rate base used in current calculations incorporates an ECLTD of 5.96% versus the ECLTD of 4.67% approved in Peoples Gas' most recent rate Order. Details supporting

the ECLTD are shown in Schedule D-3 of Peoples Gas Ex. BAJ-1.2, also sponsored by Mr. Johnson. Peoples Gas' cost of common equity (rate of return on common equity or "ROE") used for purposes of calculations in this proceeding is 12.00%, as recommended by Mr. Moul in Peoples Gas Ex. PRM-1.0. This cost of common equity compares to the rate of return on common equity of 10.19% that was approved by the Commission in Peoples Gas' most recent rate Order (the Commission approved 10.29% but then subtracted 10 basis points based on the approval of a modified version of Peoples Gas' proposed decoupling rider).

Q. What is the capital structure that is incorporated in the overall cost of capital for the test year for ratemaking purposes?

A. The overall cost of capital of 9.34% is based on a pro-forma capital structure for the test year consisting of 44% long-term debt and 56% common equity, as shown in Schedule D-1 of Peoples Gas Ex. BAJ-1.1, sponsored by Mr. Johnson. As discussed by Mr. Johnson, Peoples Gas' test year capital structure does not include any short-term debt.

IV. OPERATING INCOME AND EXPENSES

A. Overall Operating Income Requirement

Q. What is Peoples Gas' operating income requirement for the test year in order to recover its costs of capital?

A. Peoples Gas Ex. SM-1.1, Schedule C-1, presents Peoples Gas' Jurisdictional Operating Income Summary for Test Year Ending December 31, 2010, as adjusted. Schedule C-1 shows that Peoples Gas' operating income requirement is $130,392,000 in order to recover its costs of capital (line 23, column G). The proposed operating income

requirement and the underlying calculations in Schedule C-1 represent a reasonable assessment, developed using established Illinois ratemaking methodology, of the levels of expenses and revenues properly attributable to Peoples Gas' applicable operations during the test year. This exhibit indicates that Peoples Gas requires additional base rate revenues of $161,920,000 (line 1, column F), in order to recover its operating expenses and earn a rate of return of 9.34% on its original cost rate base of $1,396,058,000, i.e., in order to recover its costs of service for the applicable services.

Q. Please explain Schedule C-1 of Peoples Gas Ex. SM-1.1 in more detail.

A. Peoples Gas' forecasted operating results under present rates for the test year are shown in column C of Schedule C-1. Under present rates, Peoples Gas' forecasted operating income is $40,505,000 as shown on line 23 (column C). (Under present rates, reflecting ratemaking adjustments, Peoples Gas' forecasted operating income is $35,305,000, as shown in Schedule C-1, line 23, column E, and also in Schedule A-2, line 3, column C, in Peoples Gas Ex. SM-1.1.)

Column D shows the operating expense and operating income effects of the ratemaking adjustments Peoples Gas is proposing in this proceeding. The amounts shown in column D were taken from Schedule C-2, Ratemaking Adjustments to Operating Income, Test Year Ending December 31, 2010, in Peoples Gas Ex. SM-1.1, which I will discuss later in my testimony.

Column E is the arithmetic total of the amounts shown in columns C and D. Based on the operating income shown in column E, Peoples Gas' overall rate of return at present rates for the test year is 2.53% on its adjusted original cost rate base.

Column F sets forth the effects of the additional annual revenues (cost recovery) required in order for Peoples Gas to recover its applicable costs of service. The additional revenues that would be generated under the rates filed in this case total $161,920,000, as shown on line 1 of column F. The filed rates would, after deducting the related income taxes and the provision for uncollectible accounts (which deduction is the same calculation as reversing the application of the Gross Revenue Conversion Factor), add $95,087,000 to operating income (line 23, column F).

Column G is a pro forma statement of Peoples Gas' estimated operating income requirement, as adjusted for the test year under the proposed rates.

As shown in column G, the proposed rates would produce Operating Revenues of $624,054,000 (line 1), and operating income of $130,392,000 (line 23). The result would be a rate of return of 9.34% on Peoples Gas' adjusted original cost rate base as of December 31, 2010, as adjusted. This return is equivalent to Peoples Gas' overall cost of capital for calendar year 2010 as shown in Schedule D-1 of Peoples Gas Ex. BAJ-1.1.

B. <u>Adjustments to Operating Income and Expenses</u>

Q. Please describe Peoples Gas' ratemaking adjustments to operating income and expenses.

A. Peoples Gas Ex. SM-1.1, Schedule C-2, summarizes Peoples Gas' proposed ratemaking adjustments to operating income and expenses for the test year. Columns C through J indicate: (1) the description of each adjustment, (2) how each adjustment affects the various categories of operating revenues and expenses, and (3) the effect of each adjustment on Peoples Gas' operating income and expenses. Column K contains the arithmetic subtotals or total of the figures shown in columns C through J. Page 2,

Column K, of Schedule C-2 shows the total of all adjustments, which corresponds to the information shown in column D of Schedule C-1.

Q. Are the adjustments summarized on Schedule C-2 appropriate and correct?

A. Yes. All of the adjustments shown on Schedule C-2 are both appropriate and correct. These items adjust the calendar year 2010 forecast in order to provide data for the test year that is appropriate for setting rates that will be in effect in 2010. Details of the specific adjustments to Operating Income and Expenses are shown on Schedules C-2.1 through C-2.15 of Peoples Gas Ex. SM-1.1.

Q. Please explain each of the adjustments.

A. The adjustment shown on Schedule C-2.1 amortizes the projected rate case expense of $4,788,000 to be incurred in this proceeding over three years for ratemaking purposes. Peoples Gas, in order to seek to narrow the issues in this proceeding, has foregone a related rate base adjustment that would recover carrying costs for rate case expenses. A three-year amortization period was chosen based on the average yearly duration which Peoples Gas has experienced between its past eleven rate cases This adjustment increases general operation and maintenance expense by $1,596,000 and, after reflecting income tax effects, decreases test year operating income by $961,000. The Commission has traditionally approved the amortization of rate case expenses as just and reasonable expenses for ratemaking purposes in numerous rate cases.

The adjustment shown on Schedule C-2.2 is necessary to remove the non-base rate revenues and costs recovered under Rider 2 and Rider 11 from the calculation of the revenue requirement. This adjustment decreases Operating Revenues by $1,190,363,000, by reducing Cost of Gas by $1,167,228,000, and General Operations & Maintenance

("O&M") expenses by $23,135,000. This adjustment has no net effect on operating income.

The adjustment shown on Schedule C-2.3 is necessary in order to recognize, for ratemaking purposes, the amount of test year interest expense on customer deposits, thereby achieving consistency with Peoples Gas' proposal to deduct the year-end balance of customer deposits from its original cost rate base for the test year. This adjustment increases General O&M expenses by $1,266,000 and, after reflecting income tax effects, decreases test year operating income by $763,000.

The adjustment shown on Schedule C-2.4 is necessary in order to recognize, for ratemaking purposes, the amount of test year interest expense on Budget Plan Balances, thereby achieving consistency with Peoples Gas' proposal to include the 13-month average of net Budget Plan Balances in its net original cost rate base for the test year. This adjustment increases General O&M expenses by $824,000 and, after reflecting income tax effects, decreases test year operating income by $497,000.

The adjustment shown on Schedule C-2.5 is necessary to recognize Peoples Gas' charitable donations, which are recorded below-the-line in the cost of service, for accounting purposes in accordance with Commission requirements. Although the Commission changed the Uniform System of Accounts in 2003 to require that donations be recorded below-the-line in Account 426.1-Donations rather than above-the-line in Account 930.2-Miscellaneous General Expenses, it is Peoples Gas' understanding that this accounting change was not intended to change the treatment of donations for ratemaking purposes. This adjustment increases General O&M Expenses by $1,151,000 and, after reflecting income tax effects, decreases test year operating income by

$694,000. The Commission has traditionally allowed recovery of charitable donations in Peoples Gas' rate case proceedings.

The adjustment shown on Schedule C-2.6 is necessary in order to recognize the additional Illinois invested capital tax which Peoples Gas will incur due to the proposed increase in operating income. An increase to operating income correspondingly results in an increase to Peoples Gas' retained earnings and thus to its total capitalization, which is the variant factor in the invested capital tax calculation. This adjustment increases taxes other than income taxes by $757,000 and, after reflecting income taxes effects, decreases test year operating income by $456,000.

The adjustment shown on Schedule C-2.7 is necessary in order to eliminate the forecasted income tax effects related to items which are not included in revenue requirement for ratemaking purposes. Interest expense items on customer refunds, line of credit fee, customer deposits, and budget accounts are below-the-line expense items for ratemaking purposes, which are not reflected in operating income; thus, it is appropriate to remove the associated income tax effects from net operating income. This adjustment increases income taxes and decreases test year operating income by $970,000.

The adjustment shown on Schedule C-2.8 increases Peoples Gas' income taxes to reflect the synchronized levels of long-term debt interest costs associated with test year original cost rate base. This adjustment decreases income taxes and increases test year operating income by $254,000.

The adjustment shown on Schedule C-2.9 is necessary to reflect amortization of regulatory asset for pension costs adjusted due to a change in accounting treatment being proposed by Peoples Gas. Ms. Gregor discusses the change in accounting for pension

costs in her testimony. General O&M expenses decrease $3,435,000 and test year operating income (net of taxes) increases by $2,070,000 to effect this adjustment.

The adjustment shown on Schedule C-2.10 is necessary to reflect amortization of regulatory asset for welfare costs due to a change in accounting treatment being proposed by Peoples Gas. General O&M expenses increase $1,279,000 and test year operating income (net of taxes) decreases by $771,000 to effect this adjustment.

The adjustment shown on Schedule C-2.11 increases Peoples Gas' operating expenses by $4,877,000 to adjust for a change in depreciation expense to accrue for net dismantling (cost of removal, net of salvage) based on the depreciation study results provided by Peoples Gas witness John Spanos (Peoples Gas Ex. JJS-1.0). This adjustment increases depreciation expense by $8,094,000 and, after income taxes, decreases operating income by $4,877,000. As noted in Ms. Gregor's testimony (Peoples Gas Ex. CMG-1.0), Peoples Gas provides for the net dismantling component of depreciation on a cash basis. Peoples Gas is proposing to change its method from cash to accrual basis effective January 1, 2010. As a result, this adjustment reflects the incremental change in depreciation expense to reflect the change in accounting treatment.

The adjustment shown on Schedule C-2.12 is necessary to: (1) adjust the 2010 amortization of Cost-to-Achieve ("CTA") expenses allowed in ICC Docket No. 06-0540 to avoid over-recovery in rates effective 2010 and (2) recover the correct remaining CTA balance over three years. This adjustment decreases General O&M expenses by $4,196,000 and after reflecting income taxes, increases test year operating income by $2,528,000.

The adjustment shown on Schedule C-2.13 is necessary to remove non-base rate Rider EEP- Enhanced Efficiency Program Charges from the calculation of the revenue requirement. This adjustment decreases Operating Revenues by $6,362,000 and General O&M expenses by $6,362,000. This adjustment has no net effect on test year operating income.

The adjustment shown on Schedule C-2.14 is necessary to reflect amortization cost recovery for repairs on compressor crankshaft equipment actually incurred in 2006 but not fully recovered. This cost recovery treatment was authorized in the Peoples Gas' most recent rate case Order (ICC Docket No. 07-0241/07-0242 Consolidated). This adjustment increases General O&M expenses by $136,000 and, after reflecting income taxes, decreases test year operating income by $82,000.

The adjustment on Schedule C-2.15 is necessary to eliminate the taxes related to Gas Plant Leased to Others (Account 104). Gas Plant Leased to Others is not included in rate base. As a result, it is appropriate to exclude related tax expense which was booked in Taxes Other Than Income Taxes. This adjustment decreases taxes other than income taxes by $31,000 and income taxes by $12,000. Thus, test year operating income increases by $19,000.

V. GROSS REVENUE CONVERSION FACTOR

Q. What is the proposed Gross Revenue Conversion Factor ("GRCF") for the test year?

A. Schedule A-2.1 of Peoples Gas Ex. SM-1.1 sets forth the proper and correct calculations necessary to produce this factor. Peoples Gas' GRCF is 1.702867, as shown on line 9 of Schedule A-2.1. As is reflected on the Schedule, the factors that influence the GRCF are federal and state income taxes and the uncollectibles rate.

Q. Does this conclude your direct testimony?

A. Yes.