STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase	:	
In Rates For Gas Service	:	
	:	Nos. 09-0166, 09-0167 Cons.
THE PEOPLES GAS LIGHT	:	
AND COKE COMPANY	:	
	:	
Proposed General Increase	:	
In Rates For Gas Service	:	

Rebuttal Testimony of

SHARON MOY

On Behalf of
North Shore Gas Company and
The Peoples Gas Light and Coke Company

July 8, 2009

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I. INTRODUCTION AND BACKGROUND

A. Witness Identification

Q. Please state your name.

A. Sharon Moy.

Q. Are you the same Sharon Moy who submitted Direct Testimony on behalf of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (together, "the Utilities") in these consolidated dockets?

A. Yes.

B. Purposes of Testimony

Q. What are the purposes of your rebuttal testimony in this proceeding?

A. The purposes of my rebuttal testimony are:

(1) to respond to certain direct testimony of the Illinois Commerce Commission's (the "Commission") Staff ("Staff"), accepting several adjustments and responding to certain other proposed adjustments to operating income (operating expense) items;

(2) to respond to the direct testimony of the Illinois Attorney General's Office, the Citizens Utility Board, and the City of Chicago (collectively "AG/CUB/City") witness David Effron, accepting several adjustments and offering rebuttal to certain other proposed adjustments to operating income items;

(3) to discuss adjustments to update certain costs for: (a) Peoples Gas and North Shore relating to depreciation expense (derivative adjustments, by which I mean adjustments that are an impact of one or more other proposed adjustments and are not an "independent" adjustment), pension and welfare costs, uncollectibles, and

gasoline and fuel costs; and (b) North Shore relating to franchise requirements; and

(4) to sponsor revised revenue deficiency (operating income) Schedules to reflect uncontested adjustments and the above-referenced updated adjustments.

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

Q. Please summarize the conclusions of your rebuttal testimony.

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

(1) The Utilities agree with or will not contest a large number of Staff's and intervenors' respective proposed adjustments in order to reflect the difficult financial times and to narrow the contested issues in these proceedings.

(2) The Commission should <u>not</u> accept certain proposed adjustments from Staff witnesses and AG/CUB/City witness Mr. Effron with respect to operating expenses because they are incorrect and inappropriate.

(3) Certain updated adjustments relating to depreciation expense, pension & welfare costs, uncollectibles, gasoline & fuel costs, and North Shore's franchise requirements are proper and should be included in the cost of service calculations.

(4) The Utilities' revised requests for general rate increases reflecting revenue deficiencies (cost under-recoveries under existing rates) of $122,365,000 for Peoples Gas and $20,021,000 for North Shore, and revised revenue requirements of $584,499,000 for Peoples Gas and $85,314,000 for North Shore, are just and reasonable and should be approved by the Commission.

D. <u>Itemized Attachments to Rebuttal Testimony</u>

Q. Are you submitting any attachments to your Rebuttal Testimony?

A. Yes.

(1) Revised Schedule C-1: Jurisdictional Operating Income Summary (NS-PGL Ex. SM-2.1N and SM-2.1P).[1]

(2) Revised Schedule C-2: Company Ratemaking Adjustments to Operating Income (NS-PGL Ex. SM-2.2N and SM-2.2P).

(3) Adjustment for change in Depreciation Expense on Forecasted Capital Additions (NS-PGL Ex. SM-2.3N and SM-2.3P).

(4) Adjustment for Net Dismantling Accrual on Depreciation Expense (NS-PGL Ex. SM-2.4N and SM-2.4P).

(5) Adjustment for change in Employee Benefits (NS-PGL Ex. SM-2.5N and SM-2.5P).

(6) Adjustment for change in proposed amortization of regulatory asset for pension costs (NS-PGL Ex. SM-2.6N and SM-2.6P).

(7) Adjustment for change in proposed amortization of regulatory asset for welfare costs (NS-PGL Ex. SM-2.7N and SM-2.7P).

(8) Reclassification of costs from Account 813 to Account 856 (NS-PGL Ex. SM-2.10P).

(9) Adjustment for Invested Capital Tax (NS-PGL Ex. SM-2.8N and SM-2.8P).

(10) Adjustment for Interest Synchronization (NS-PGL Ex. SM-2.9N and SM-2.9P).

II. <u>UNCONTESTED ISSUES</u>

Q. Do the Utilities agree with or accept any Staff and intervenor proposed adjustments to rate base and operating expenses?

[1] An "N" or a "P" at the end of the name of an exhibit means that it applies to North Shore or Peoples Gas, respectively.

A. Yes. The Utilities accept or do not contest certain adjustments proposed by Staff and intervenors. Some of the adjustments were a result of cost cutting efforts the Utilities have initiated in response to the ongoing financial difficulties. For this reason as well as others, including the Utilities' goal to narrow contested issues (without waiving any rights to contest issues in future proceedings) and make corrections, the Utilities accept or do not contest certain adjustments proposed by Staff and intervenors. These adjustments are summarized below and apply to both Peoples Gas and North Shore unless noted otherwise:

<u>Staff Witness Dianna Hathhorn (Staff Ex. 1.0):</u>

- Union Wages (operating expenses and rate base)
- Inventory Reclassification (operating expenses and rate base)
- Interest synchronization (derivative adjustments)
- Invested capital tax (derivative adjustments)
- Liberty Consulting Group and Huron Consulting Group fees related to the Liberty pipeline audit addressed in the response to Staff data request DLH-17.02 (operating expenses)
- Reduction in Integrys Business Support ("IBS") charges addressed in response to Staff data request DLH-4.06 [2] (operating expenses)
- Reduction in Peoples Gas non-union wage adjustment addressed in response to Staff data request DLH-4.06 [3] (operating expenses)

<u>Staff Witness Bonita Pearce (Staff Ex. 2.0):</u>

- Outside contractors addressed in the response to Staff data request DLH-4.06 [2] (operating expenses)

[2] The items noted in response to Staff data request DLH 4.06 for reductions in IBS charges total $7,493,000 and $360,000 for Peoples Gas and North Shore, respectively. The Utilities accept the total dollar amount adjustments but revised them to reflect proper account allocation.

[3] Peoples Gas accepts the reduction of $86,000 in non-union wage merit increases noted in footnote (e) of Staff Ex. 1.0, Schedule 1.8 P.

Staff Witness Mike Ostrander (Staff Ex. 3.0):

- Interest expense on Budget Payment Plan (operating expenses)
- Interest expense on Customer Deposits (operating expenses)

Staff Witness Richard Bridal (Staff Ex. 5.0):

- Adjustment on real estate taxes (operating expenses)

Staff Witness Larry Wilcox (Staff Ex. 6.0):

- Lobbying expenses on AGA dues portion (operating expenses)
- Civic, political and related activities (operating expenses and rate base)
- Social and service club dues (operating expenses)

AG/CUB/City Witness David Effron (AG/CUB/City Ex. 1.0):

- Union Wages (operating expenses)
- Liberty Consulting Group and Huron Consulting Group fees related to Liberty audit addressed in the response to Staff data request DLH-17.02 (operating expenses)
- Reduction to IBS charges addressed in response to Staff data request DLH-4.06 [2] (operating expenses)
- IBS Account 930.20 Mainframe Depreciation Expense (operating expenses)

III. CONTESTED ISSUES

A. Net Dismantling on Depreciation Expense

Q. Do you agree with Staff witness Ms. Everson's proposed adjustments to the Utilities' net dismantling portion of depreciation expense based on derivative impact of her adjustments to forecasted plant additions (Staff Ex. 4.0, Schedules 4.2P and 4.2N)?

A. I agree with Ms. Everson that the adjustments to the Utilities' net dismantling portion of depreciation expense should reflect the derivative impacts of adjustments made to forecasted plant additions. However, I do not agree with the figures proposed by Ms. Everson in deriving the adjustments to depreciation expense (Staff Ex. 4.0,

Schedules 4.2P and 4.2N) based on her proposed disallowances to the Utilities' forecasted gross additions of $104,000,000 and $2,500,000 applicable to Peoples Gas and North Shore, respectively. First, the average test year Utility Plant in Service balance used in her calculation incorrectly included Account 107 – Construction Work in Progress and Account 117 – Gas Stored Underground-Noncurrent. These accounts are non-depreciable. Regarding Account 107, depreciation is recognized once the property is transferred from Account 107 to Account 101 – Gas Plant in Service or Account 106 – Completed construction not classified-Gas. Account 117 represents Recoverable Cushion Gas which is not depreciated. Second, the Utilities are proposing adjustments to forecasted gross additions that will have a derivative impact to adjustments for net dismantling. After factoring these items, the adjustments to the net dismantling portion of depreciation expense should decrease by $294,000 for Peoples Gas and increase by $7,000 for North Shore Gas. These adjustments are reflected in NS-PGL Exs. SM-2.4N and SM-2.4P.

B. <u>Advertising Expenses</u>

Q. Do you agree with Staff witness Mr. Wilcox's adjustment that disallows certain advertising expenses that he considered to be "of a promotional, goodwill or institutional nature" under Section 9-225 of the Public Utilities Act and, therefore, not allowable for rate recovery?

A. I agree with Mr. Wilcox in part. I agree that certain advertising expenses identified by Mr. Wilcox could be considered "of a promotional, goodwill or institutional nature" and, therefore, do not oppose the portion of the adjustment disallowing recovery of the following expenses:

	Peoples Gas	North Shore
Account 909–Informational & Instructional Advertising		
Sponsorships	$ 57,000	$ 40,000
Program Support	$ 20,000	$ 10,000
Internal Labor	$111,000	$ 35,000
	$188,000	$ 85,000
Account 930.1-General Advertising Expenses	$ 10,000	$ 2,000

However, I do not agree with Mr. Wilcox that advertising expenses related to the Utilities' Safety, Reliability and Warmth Campaign ("SRW Campaign") are promotional and unallowable costs to recover. Contrary to Mr. Wilcox's opinion, the purpose of the SRW Campaign is not to promote or improve the image of Peoples Gas or North Shore.

Q. What is the purpose of the SRW Campaign?

A. The SRW Campaign was developed to strengthen customer awareness about the delivery services and direct customer benefits provided by Peoples Gas and North Shore. The key message strategy of the campaign was to educate customers how the Utilities deliver safe, clean, and reliable natural gas to improve customers' lives. The communications focused on using the words "Safety" "Reliability", and "Warmth" to explain the services offered and the benefits provided to customers. Further, the communications provided customers with service information that is made easily and readily available to them. The energy education advertising in the SRW Campaign focused on three main customer benefits: (1) conserving/managing home natural gas use, (2) billing and payment options, and (3) staying safe and understanding the use and maintenance of the natural gas delivery function. This campaign is not promotional or goodwill advertising, and the costs should be recoverable.

C. Rate Case Expenses

Q. Do you agree with Mr. Effron's proposed adjustment disallowing $1,100,000 to Peoples Gas' test year operating expenses for outside professional services for rate case support?

A. No. I do not agree with Mr. Effron's proposal to eliminate recovery of $1,100,000 in Peoples Gas' test year operating expenses for outside professional services for rate case support. Mr. Effron based his proposed adjustment on Peoples Gas' response to Staff data request BAP 3.03. However, his assumption that outside costs for rate case support were "double-counted" in operating expenses and in deferred charges is not accurate. As shown in Note (1) on Peoples Gas Schedule C-6.2 Rev., expenses for outside professional services for forecasted years are charged to various accounts and accumulated by type of charge. This means that the expenses for outside professional services are not exclusively recorded to Account 923 – Outside Services Employed. In addition, the response to Staff data request BAP 3.03 identified total outside costs forecasted in 2009 and 2010 for rate case support to be $2,700,000 and $1,100,000, respectively. These amounts are included in Schedule C-10, Rate Case Expenses, and amortized over the proposed three-year period. Expenses for outside professional services related to rate case support were not forecasted in test year 2010 as operating expenses but were included in the calculation of the revenue deficiency via ratemaking adjustment.

D. Merger Costs

Q. Do you agree with Staff Witness Ms. Pearce's proposed adjustments to the amortization of merger costs?

A. No. Ms. Pearce's recommended adjustments to the amortization of merger costs are based upon the assumption that the expected actual recovery of merger costs will be less

than what the Utilities are allowed to recover under the Order in ICC Docket No. 06-0540. I do not agree that such adjustment is necessary because the Utilities will incur the total merger costs allowed for recovery by the end of the 2010 test year. Ms. Pearce's calculations understated the annual amortization of merger costs for years 2010 - 2012 because she added the Utilities' forecasted unamortized balances at the end of test year 2009 to the Schedule C-2.12 ratemaking adjustments in the original filing and amortized the sum over three years. The purpose of the Schedule C-2.12 ratemaking adjustment in the original filing was as follows: (1) to eliminate the original forecast of test year 2010 amortization expense from the test year and (2) to amortize the remaining merger costs over three years. Therefore, Ms. Pearce should have used the latter point to calculate annual amortization expense for years 2010 – 2012. Ms. Pearce utilized the Utilities' third supplemental response to Staff data request BAP 2.01 as the basis for her adjustment to calculate expected actual total costs recoverable by the end of 2009. The responses provided in Staff data request BAP 2.01 reflect actual data through April 30, 2009. Ms. Pearce extrapolated annual 2009 costs based on the actual averaging for five months of data.

IV. UPDATED ADJUSTMENTS

A. Depreciation Expense on Forecasted Capital Additions

Q. Please explain the adjustments for depreciation expense on forecasted capital additions.

A. The Utilities' witness John Hengtgen proposes adjustments to Gross Utility Plant in Service related to forecasted capital additions by decreasing Rate Base $92,033,000 for Peoples Gas and increasing Rate Base by $1,450,000 for North Shore. These rate base adjustments result in derivative adjustments to Peoples Gas' which decrease depreciation

expense by $2,324,000 and increase North Shore's depreciation expense by $29,000. I have accounted for this change in NS-PGL Exs. SM-2.3N and SM-2.3P.

B. Employee Benefits

Q. Please explain the adjustments for employee benefits

A. Utilities' witness Christine Phillips indicates in her testimony that the test year pension and benefit expenses would increase from the original filing by $3,001,000 and $147,000 for Peoples Gas and North Shore, respectively, based on most recent outside actuary valuations provided. My ratemaking adjustments reflect the portion of pension and benefit expenses that should be in Account 926 based on updated capital and expense allocations. Those adjustments increase operating expenses for Peoples Gas and North Shore by $1,389,000 and $100,000 and are reflected in adjustment that is an impact of one or more other proposed adjustments and is not an "independent" adjustment NS-PGL Exs. SM-2.5N and SM-2.5P.

C. Amortization of Regulatory Asset for Pension Costs

Q. Please explain adjustments on the amortization of regulatory assets for pension costs.

A. The adjustments on the amortization of regulatory assets for pension costs were necessary for the following reasons: First, I incorrectly capitalized portions of the amortization amounts in Schedule C-2.9 ratemaking adjustments provided in my direct testimony. The amortization should be entirely in expense and no portion should be capitalized as shown in Schedule B-2 of Peoples Gas' and North Shore's original filings in which no rate base adjustments were made. Corrections to the Utilities' original filings result in increases to operating expenses of $215,000 and $600,000 for Peoples Gas and North Shore, respectively.

Second, I reflect the change in amortization based on most recent outside actuary valuations provided to the Utilities on pension and benefits. The change in amortization results in an increase to Peoples Gas' operating expenses of $49,000 and a decrease to North Shore's operating expense of $177,000,

The net impact of these adjustments total to $264,000 for Peoples Gas and $423,000 for North Shore and are reflected in NS-PGL Exs. SM-2.6N and SM-2.6P of my rebuttal testimony.

D. <u>Amortization of Regulatory Asset for Welfare Costs</u>

Q. Please explain the adjustments on the amortization of regulatory assets for welfare costs.

A. The adjustments on the amortization of regulatory assets for welfare costs were necessary for the following reasons: First, I incorrectly capitalized portions of the amortization amounts in Schedule C-2.10 ratemaking adjustments provided in my direct testimony. The amortization should be entirely in expense and no portion should be capitalized as shown in Schedule B-2 of Peoples Gas' and North Shore's original filings in which no rate base adjustments were made. Corrections to the Utilities' original filings result in increases to operating expenses of $7,828,000 and $794,000 for Peoples Gas and North Shore, respectively.

Second, I reflect the change in amortization based on most recent outside actuary valuations provided to the Utilities on pension and benefits. The change in amortization results in a decrease to Peoples Gas' operating expenses of $3,273,000 and a decrease to North Shore's operating expense of $259,000.

The net impact of these adjustments total to $4,555,000 for Peoples Gas and $535,000 for North Shore and are reflected in NS-PGL Exs. SM-2.7N and SM-2.7P.

E. Adjustments Related to Uncollectibles Expense, Gasoline and Fuel Gas Costs, and Franchise Requirements

Q. Please explain the adjustments for uncollectible expense, gasoline and fuel gas costs, company gas use and franchise requirements.

A. Utilities' witness Christine Gregor proposes adjustments to Uncollectible Expense and Franchise Requirements in her rebuttal testimony. Also, included in her testimony, Ms. Gregor provides updated information on cost of gas and fuel prices addressed by Staff witness Mr. Seagle and AG/CUB/City witness Mr. Effron in their respective testimonies. The adjustments for the above items are shown as attachments to Ms. Gregor's rebuttal testimony as NS-PGL Exs. CMG-2.3N, CMG-2.3P (Uncollectibles), CMG-2.4N, CMG-2.4P (Fuel Costs), CMG-2.6N, CMG-2.6P (Company Gas Use) and CMG-2.5N (Franchise Requirements).

I incorporated these adjustments in NS-PGL Exs. SM-2.2N and SM-2.2P, Revised Schedules C-2.

F. Reclassification of test year 2010 costs (Account 813 & Account 856)

Q. Please explain the reclassification of test year 2010 costs from Account 813-Production - Other Gas Supply Expenses to Account 856 - Transmission-Mains expenses for Peoples Gas.

A. In the revised Utilities' response to Staff data request ENG 1.18, it was determined that the test year 2010 costs of $1,012,000 presented on Schedule C-4 in Account 813 should have been in Account 856. I reflect the reclassification between these Operation & Maintenance expense accounts in NS-PGL Ex. SM-2.10P.

V. UPDATED REVENUE DEFICIENCY

Q. Please describe NS-PGL Exs. SM-2.1N and SM-2.1P, revised Schedules C-1.

A. As indicated in the foregoing testimony, the Utilities have agreed to or accepted numerous Staff and intervenor adjustments (in some instances solely in order to narrow the contested issues) and have provided additional evidence concerning other adjustments.

The Utilities have revised each of their Schedule C-1's to reflect the above-mentioned changes. As a result, Peoples Gas' revenue deficiency (cost-under recovery under existing rates) is $122,365,000 and North Shore's revenue deficiency is $20,021,000.

I also have attached the following related revised operating expense schedules that provide and support data incorporated in the revised Schedule C-1's: NS-PGL Exs. SM-2.1N and SM-2.1P (revised Schedule C-1's) and SM-2.2N and SM-2.2P (revised Schedule C-2's), reflecting adjustments including all applicable derivative items. The related calculations regarding invested capital tax and interest synchronization (both are derivative items) are found and supported in NS-PGL Exs. SM-2.8N, SM-2.8P, SM-2.9N, and SM-2.9P. The applicable data in the other Schedules attached to my rebuttal testimony also has been incorporated in the updated revenue deficiency calculations.

Q. What overall return on rate base have you applied in the determination of the Utilities' updated revenue deficiencies?

A. I utilized the overall rates of return on rate base of 9.27% for Peoples Gas and 9.06% for North Shore. These rates are supported by the rebuttal testimony of NS-PGL witnesses

Brad Johnson (NS-PGL Ex. BAJ-2.0), Paul Moul (NS-PGL Ex. PRM-2.0), and Steven Fetter (NS-PGL Ex. SMF-1.0).

Q. Does this conclude your rebuttal testimony?

A. Yes.