REBUTTAL TESTIMONY

of

BONITA A. PEARCE

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

North Shore Gas Company &
Peoples Gas Light and Coke Company

Docket Nos. 09-0166 and 09-0167 Consolidated

August 4, 2009

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WITNESS IDENTIFICATION

Q. Please state your name and business address.

A. My name is Bonita A. Pearce. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Have you previously filed testimony in this proceeding?

A. Yes, my direct testimony was filed on June 10, 2009 as ICC Staff Exhibit 2.0.

Q. Are you sponsoring any schedules or attachments as part of ICC Staff Exhibit 16.0?

A. Yes. I prepared the following schedules that reflect data as of, or for the future test year ending, December 31, 2010:

Schedule 16.1 P - Adjustment to Remove Pension Asset

Schedule 16.2 N and P - Adjustment for Amortization of Merger Costs

I have also included the following attachment that presents information provided by The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (individually, the "Company" and collectively, the "Companies"):

Attachment A – Response to ICC Staff Data Request BAP 12.03 P (Subtotals and computation added by Staff witness Pearce)

Attachment B – Response to ICC Staff Data Request BAP 15.05 P

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to the Companies' witness Alan Felsenthal (NS-PGL Ex. AF-1.0) regarding my adjustment to remove the pension asset (updated) from Peoples Gas' rate base in the 2010 test year. I will also respond to Companies' witness Sharon Moy (NS-PGL Ex. SM-2.0) regarding the adjustment for amortization of merger costs reflected in the 2010 test year. Additionally, I will address the rebuttal testimony of Companies' witness John Hengtgen regarding the Savings Plan Expense adjustment proposed by Mr. David J. Effron, witness for The People of the State of Illinois ("AG"), the Citizens Utility Board ("CUB") and the City of Chicago ("City") (collectively, "AG/CUB/City"). Finally, I will address the rebuttal testimony of Companies' witness Sharon Moy (NS-PGL Ex. SM-2.0, page 11) pertaining to amortization of the regulatory assets for pension and welfare costs.

Q. Were there any other adjustments proposed by you that the Companies addressed in rebuttal testimony?

A. Yes, the rebuttal testimony of Mr. James F. Schott (NS-PGL Ex. JFS-2.0, lines 130 – 140) describes the adjustments proposed by Staff and Intervenors that the Companies will not contest. Specifically, Mr. Schott refers to NS-PGL Ex. JFS-2.1, a summary of proposed adjustments affecting the test year revenue requirement. Among the adjustments that

the Companies agree to accept is the adjustment for planned reduction in use of external contractors that I proposed in direct testimony, ICC Staff Exhibit 2.0, Schedules 2.2 N and P. This adjustment is also addressed in the rebuttal testimony of Sharon Moy as an uncontested issue (NS-PGL Ex. SM-2.0, pp. 3 – 4, lines 66 – 93).

ADJUSTMENTS

Adjustment to Remove Pension Asset

Q. Did you review the rebuttal testimony of Companies' witness Alan Felsenthal (NS-PGL Ex. AF-1.0) pertaining to your adjustment to remove the pension asset, net of accumulated deferred income taxes, from Peoples Gas' rate base (ICC Staff Exhibit 2.0, Schedule 2.1 P)?

A. Yes, I did.

Q. Did Mr. Felsenthal provide new information or analysis that caused you to reconsider your proposal?

A. No, he did not. Instead, Mr. Felsenthal characterized the essence of our disagreement over the proper treatment of Peoples Gas' pension asset for ratemaking purposes as follows:

> I address both Ms. Pearce's and Mr. Effron's exclusion of Peoples Gas' prepaid pension asset from the rate base on the **incorrect notion** that the prepaid pension asset represents ratepayer supplied funds. (NS-PGL Ex. AF-1.0, lines 24 – 26 (emphasis added**))**

Essentially, Mr. Felsenthal believes the pension asset was created with shareholder funds and therefore, represents an asset on which shareholders should earn a return. In contrast, I find the pension asset was created with contributions using monies supplied by ratepayers through the collection of utility rates. Although the determination of a net pension asset or liability at any given point in time will be impacted by multiple factors, including returns on invested assets and actuarial assumptions, ratepayers ultimately, through the collection of utility rates, have borne and will continue to bear the cost of the pension plans.

Q. Please restate your rationale for removing the Peoples Gas pension asset from rate base in the 2010 test year.

A. As I stated in my direct testimony (ICC Staff Exhibit 2.0, lines 61 – 66), the net pension asset should not be included in rate base because it was not created with funds supplied by shareholders. Rather, the net pension asset has been funded from normal operating revenues collected from utility ratepayers and, therefore, represents funds supplied by ratepayers. Since the net pension asset was funded by normal operations, rather than provided by shareholders, shareholders should not earn a return on it. The pension expense is and has been reflected in utility rates. The pension expense is determined by accounting rules based on actuarial calculations that recognize an amount of pension cost for that period.

Contributions to the pension plan represent payments of that obligation with monies provided through the collection of utility revenues from ratepayers.

Q. Mr. Felsenthal asserts: "As with any capital expenditure, the source of the contribution is investors, as ratepayers pay for the cost of service consisting of annual operating costs and return (rate base times rate of return)." (NS-PGL Ex. AF-1.0, lines 232 – 234). Do you agree with this comparison?

A. No, I do not. The net pension asset is not the result of a "capital expenditure" by shareholders. Instead, it is the net difference between the fair value of the pension fund and the projected pension obligation, as measured at a specific point in time. The pension fund value is based on the investments included in the pension fund and the pension obligation is based on estimates, determined by actuarial analysis using various assumptions and methods. Accordingly, the net pension asset is a function of comparing two components—the value of the pension fund and the projected pension obligation. If either the value of the pension fund or the pension obligation changes, the net difference (for Peoples Gas, a net pension asset) will change as well. This difference is basically a timing difference that results from several factors, including differences between the amount of pension expense reflected in rates and the amount of cash contributed to the plan, actuarial assumptions, market

performance that impacts the underlying investments, and factors that impact the obligation, like curtailments.

Mr. Felsenthal agrees that pension expense for ratemaking and financial reporting purposes (which is reflected in the test year revenue requirement) will usually differ from funding requirements (i.e., cash contributed to the pension plan) since the two amounts are determined according to different sets of rules.

> "The funding rules as set forth under ERISA *(Employee Retirement Income Security Act of 1974)* and the IRC *(Internal Revenue Code)* are different than the methodology used to determine pension expense under FAS 87 *(Statement of Financial Accounting Standard)*. Over time, the cumulative employer contributions made to the plan and the cumulative accounting costs under FAS 87 should be equal. But in the shorter term there will be differences." (NS-PGL Ex. AF-1.0, lines 129 – 133) [Information in italics added]

Accordingly, Mr. Felsenthal and I agree that timing differences impact the resulting net pension asset. However, Mr. Felsenthal continues his argument with the following assertion, which focuses on a single element of the net pension asset, specifically, the difference between cash contributions and pension expense:

> "To the extent that cumulative contributions to the pension plan exceed the cumulative accounting costs based on FAS 87, there is a balance sheet entry equal to the excess. This is the prepaid pension asset, representing the employer's contributions which have not yet been reflected as pension cost in the accounting records or on the financial statements."

While that statement is not necessarily untrue, it provides a simple but incomplete analysis because it fails to address the main factor that has contributed to the net pension asset in the instant Peoples Gas

proceeding; specifically, a regulatory asset created by the application of accounting rules. Moreover, there is no evidence in the instant proceeding to support the contention that cumulative cash contributions in excess of the pension expense alone, account for the Peoples Gas' pension asset.

Q. Mr. Felsenthal restates his understanding of Staff's rationale as follows:

> When this issue has been addressed in Illinois in previous rate cases, Staff has taken the position that because positive pension expense was included in the test year, that the ratepayer is "paying" pension expense and the subsequent negative pension expense (pension credits) building up in the prepaid pension asset in non-rate case periods is being funded by the ratepayer. (NS-PGL Ex. AF-1.0, lines 333 – 338)

Mr. Felsenthal disagrees with this position, stating:

> This position assumes that any amounts included in the test year can be tracked in subsequent periods with ratepayers over or under "paying" for expenses established in the test period. If this were the case, deferred income taxes, the OPEB liability, accumulated cost of removal, accumulated depreciation and accrued interest would need to be tracked in a similar manner to determine the appropriate rate base reduction. This simply is not done nor is it required. (NS-PGL Ex. AF-1.0, lines 339 – 344)

How do you respond to Mr. Felsenthal's argument, as quoted above?

A. Mr. Felsenthal has misstated Staff's position. First, to the extent that pension expense is reflected in rates, as determined by a respective utility in accordance with FAS 87, the ratepayer has supplied revenues to pay the amount of pension obligation as determined through actuarial calculations. Reliance on this fact does not assume that "any amounts

included in the test year can be tracked in subsequent periods with ratepayers over or under "paying" for expenses established in the test period", as Mr. Felsenthal contends. It has been, and continues to be, Staff's position that the payment of contributions to the pension plan by the Companies, using money obtained from the collection of utility rates, constitutes ratepayer funded payments irrespective of whether actual contributions vary from the actuarial based calculation.

Q. Mr. Felsenthal describes at length the origin of Peoples' Gas pension asset, as the difference between the fair value of assets set aside to pay for projected benefit obligations and the projected benefit obligation. He goes on to say there are two typical transactions that result in a pension asset, one being that the entity makes pension contributions in excess of pension cost, and the other resulting when annual pension cost according to FAS 87 is a negative, not a positive expense. (NS-PGL Ex. AF-1.0, lines 168 – 178) Did Mr. Felsenthal indicate which of these two transactions created the Peoples' Gas pension asset in the instant proceeding?

A. Not directly; however, Mr. Felsenthal states:

> In all cases, the prepaid pension asset and the related regulatory asset represents the cumulative difference between what has been contributed to the pension plan and what has been expensed under the pension accounting rules. (NS-PGL Ex. AF-1.0, lines 195 – 197)

Based on this rationale, the reader might infer that as of December 31, 2010, cumulative pension contributions from Peoples Gas will exceed cumulative pension expense reflected in utility rates by $155,496,000 (NS-PGL Ex. JH-2.0, Ex. JH-2.7P, line 15, column (I)), the amount of net pension asset Peoples Gas seeks to reflect in the test year rate base.

Q. Does that seem reasonable to you?

A. No, it does not. As stated previously, there is no information in the record of this proceeding to support the contention that Peoples Gas shareholders have made contributions to the pension plan in an amount $155,496,000 greater than the amounts collected from ratepayers through utility rates (or in any other amount). Moreover, based on the response to Staff Data Request BAP-12.03, during the most recent five-year period from 2004 to the present, including the Company's projection for the balance of 2009, total cash contributions by Peoples Gas to the pension plan total $37,743,228 and pension expense recorded by Peoples Gas totals $56,137,260 (ICC Staff Exhibit 16.0, Attachment A). This evidence demonstrates that just within the last five years, pension expense, which is recovered in rates, has exceeded pension contributions by $18,394,032.

Q. Referring again to Mr. Felsenthal's rebuttal testimony:

> **In all cases, the prepaid pension asset and the related regulatory asset represents the cumulative difference between what has been contributed to the pension plan and what has been expensed under the pension accounting rules. (NS-PGL Ex. AF-1.0, lines 195 – 197)**

In the above quote, Mr. Felsenthal refers to the prepaid pension asset *and the related regulatory asset.* What is the difference between these two components of the net pension asset?

A. Referring to the rebuttal testimony of Mr. John Hengtgen, NS-PGL Ex. JH-2.7 P reflects the Company's updated pension and Other Post Employement Benefits ("OPEB") liability amounts (NS-PGL Ex. JH-2.0, lines 352 – 356). As this exhibit shows, the net pension asset consists of the Net Pension Funded Status, a liability of $70,859,000 (NS-PGL Ex. JH-2.7 P, line 9, column (I) and the Net Pension Regulatory Asset of $226,355,000 (NS-PGL Ex. JH-2.7 P, line 14, column (I), which sum to the Total Pension net asset of $155,496,000 (NS-PGL Ex. JH-2.7 P, line 15, column (I)) that Peoples Gas seeks to reflect in rate base. As is clear from the descriptions used by the Company, the funded portion of the pension is a liability. Accordingly, the net pension asset that the Company seeks to recover in rate base is largely a function of accounting rules according to FAS 158, not a result of excess contributions. It is also worth noting that the description "regulatory asset" is used to denote timing differences that will eventually be collected from ratepayers. If ratepayers

were not eventually going to bear this cost, it could not by definition be classified as a regulatory asset.

Q. Please describe briefly the substance of FAS 87 and FAS 158.

A. FAS 87 refers to Statement of Financial Accounting Standards No. 87 entitled *Employers' Accounting for Pensions* and FAS 158 refers to Statement of Financial Accounting Standards No. 158 entitled *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Basically, FAS 87 covers the employers' accounting for pension plans. FAS 158 amends FAS 87 with regard to financial statement disclosure and generally requires companies to reflect the funded status of the pension plan on the balance sheet instead of disclosing the funded status in footnotes attached to the financial statements, as previously allowed. (The funded status of the pension plan basically is the difference between the fair value of pension plan assets and the projected benefit obligation.) FAS 158 (issued in September 2006) affects employers' balance sheets by requiring the entity to recognize the overfunded or underfunded status of the pension plan as an asset or liability and to recognize changes in the funded status as other comprehensive income. FAS 158 does not alter the way annual pension cost is calculated.

Q. What impact did the actuarial update have on the 2010 test year pension expense and related pension regulatory asset?

A Based on the rebuttal testimony of Ms. Christine M. Phillips, the actuarial update increased the Peoples Gas 2010 test year pension expense by $6,268,000 (NS-PGL Ex. CMP-1.0, lines 104 – 106). The impact on the forecasted average balances for the 2010 test year rate base is as follows:

> For the 2010 test year, the initial filing reflected an average prepaid pension of $16,416,000 with a related regulatory asset of $124,715,000; reflecting a net pension asset of $141,131,000. The updated forecasted average balances for the 2010 test year are an accrued pension liability of $70,859,000 with a related regulatory asset of $223,373,000; reflecting a net pension asset of $152,514,000, a net increase of $11,383,000. (NS-PGL Ex. CMP-1.0, lines 144 – 149)

The impact of the actuarial update on the test year filing proves two things: (1) since pension expense increased, ratepayers are the ones who bear the cost of the pension plan and provide the revenues that fund the Company's contributions; and (2) the $98,658,000 increase in the pension regulatory asset, ($223,373,000 – $124,715,000) is the result of a timing difference created through application of the accounting rules, not excess cash contributions from shareholders.

Q. Is the Peoples Gas net pension asset the result of negative pension expense under FAS 87, the second type of transaction described by Mr. Felsenthal (NS-PGL Ex. AF-1.0, lines 177 – 178)?

A. No. Based on the Company's response to BAP 12.03 as cited above, it does not appear that Peoples Gas has reflected negative pension

expense in the most recent five year period. Further, based on the Company's response to Staff Data Request BAP 15.05, Peoples Gas agrees that the two most recent rate proceedings in 1995 and 2007 did not contain negative pension expense (ICC Staff Exhibit 16.0, Attachment B). Moreover, based on the impact of the actuarial update on the 2010 test year, it appears the greatest impact results from the application of accounting rules that increased the regulatory asset.

Q. Mr. Felsenthal notes the importance of ERISA rules that prohibit employers from removing money from pension funds (NS-PGL Ex. AF-1.0, lines 198 – 200). Why would this be important?

A. Mr. Felsenthal is, I believe, making the point that once the monies are contributed to the pension plan, they are no longer available to the Company for other cash operating needs.

Q. Do you agree with this observation?

A. Yes, I do. I would note however, that control over the pension plan funds is not the basis for my position that shareholders should not earn a return on the net pension asset.

Q. Please summarize your rebuttal to Mr. Felsenthal.

A. Although Mr. Felsenthal and I agree on many aspects of this issue, we disagree about a fundamental point---the source of the funds that gave

rise to the net pension asset. For all the reasons stated above, I maintain that the net pension asset was created with ratepayer funds; accordingly, the net pension asset should be removed from the test year rate base so that shareholders do not earn a return on this asset.

Q. Why is it proper not to add the net pension asset to rate base, but to reduce rate base for the pension liability?

A. Because ratepayers bear the cost of the pension plans in utility rates, it is improper to reflect pension contributions or pension assets in rate base. Such treatment would allow shareholders to earn a return on ratepayer-supplied funds. Similarly, it is proper to reduce rate base by the amount of pension liability. The North Shore pension liability represents the amount of expense that has been recovered in rates and not yet contributed to the pension plan by the Company. Therefore, it represents a cost-free source of capital to the Companies and must be a reduction of rate base.

Q. In the prior rate case Docket Nos. 07-0241/-0242 (Cons.) did you propose an adjustment to reduce North Shore's rate base by its pension liability (ICC Staff Exhibit 14.0, lines 486 - 502)?

A. No, I did not.

Q. Please explain why you did not propose to adjust the Company's filing to reduce North Shore's rate base by the pension liability in Docket Nos. 07-0241/-0242 (Cons.).

A. In Docket Nos. 07-0241/-0242 (Cons.) the Companies reflected neither the Peoples Gas pension asset nor the North Shore pension liability in rate base. In the rebuttal phase of that proceeding, I supported an adjustment proposed by Mr. David J. Effron (GCI Ex. 1.0, lines 254 – 292) to reduce utility rate base by the amount of accrued OPEB liabilities. The Companies' witness Ms. Linda Kallas (North Shore/Peoples Gas Ex. LK-2.0) responded to this adjustment with the argument that the Companies should reflect the pension asset in rate base if they reduce it for the OPEB liability. I addressed the ratemaking treatment of Peoples Gas pension asset and the corresponding pension liability reflected by North Shore in response to this argument. Therefore, my response was primarily focused on the Peoples Gas pension asset, rather than the North Shore pension liability. In the instant proceeding, I have focused on both the pension asset reflected by Peoples Gas and on the pension liability reflected by North Shore and I have included my rationale for this treatment.

Q. Why is it appropriate to reduce rate base for OPEB liability?

A. OPEB is the employer's obligation for post retirement benefits generally, such as health care, life insurance, tuition assistance and other types of

post retirement benefits outside of a pension plan. For ratemaking purposes, a rate base reduction of the accrued liability associated with OPEB is appropriate to the extent that the test year obligation is unfunded or partially funded. The accrued liability represents the aggregate OPEB costs recognized in the income statement which has not been paid to a third party. Ratepayers have supplied funds for future obligations; therefore, a source of cost free capital has been provided to the utility which should be recognized in the revenue requirement as a reduction from rate base. In the instant proceeding, the accrued OPEB liability represents a cost-free source of capital and should be treated for ratemaking purposes as a reduction to rate base.

<u>Adjustment for Amortization of Merger Costs</u>

Q. Did you review the rebuttal testimony of Companies' witness Sharon Moy pertaining to your adjustment for amortization of merger costs to achieve ("CTA") (ICC Staff Exhibit 2.0, Schedules 2.2 N and P)?

A. Yes, I did. My adjustment is the result of two components: recoveries and costs. The purpose of my adjustment is to reconcile total recoveries collected through existing rates and those that will be recovered as a result of the instant proceeding, with actual CTA incurred to date and projected through the remainder of 2009, after which time the Companies project they will incur no further CTA.

Q. Why is this reconciliation necessary?

A. In Docket No. 07-0241/-0242 (Cons.), the Companies began recovering a portion of the merger CTA (Docket No. 06-0540). It was recognized by the Commission that some costs allowed for recovery in Docket No. 07-0241/-0242 (Cons.) would not actually have been incurred yet. During the interim, additional CTA have been incurred and, according to the Companies' projections for the 2010 test year, all CTA will be incurred by the end of 2009. Based on this information, the instant proceeding is the appropriate time to reconcile recoveries of CTA with actual CTA incurred.

Q. Did Ms. Moy provide information or analysis that caused you to reconsider your proposal?

A. In part. I have made two changes to Schedules 16.2N and P, but disagree with her as to the amount of merger costs already recovered through current rates, as well as the amount that will be recovered through the Companies' proposed rates in the instant proceeding.

Q. What two changes have you made to Schedules 16.2N and P?

A. I have corrected Schedule 16.2N, page 2 for an error Ms. Moy noted in one of my formulas used to calculate recoveries. I have also updated the amount of recoverable costs to be incurred through the remainder of 2009 based on upon the Companies' revised forecast CTA for 2009 rather than

my previous estimate of 2009 CTA on actual costs incurred through April 2009, annualized for the year.

Q. Explain the disagreement as to the amount of merger costs already recovered through current rates as well as the amount that will be recovered through the Companies' proposed rates in the instant proceeding.

A. The initial filing reflected amortization of merger costs based on actual costs incurred to date and forecasted costs the Companies expect to incur throughout the end of 2008 and during calendar year 2009. Supporting documentation provided by the Companies in response to Staff Data Request BAP-14.03 indicates that the Companies expect to incur no further CTA after 2009. As time passes, it seems appropriate to update the initial estimate with actual costs and the revised current forecast. Accordingly, my adjustments attempt to reconcile the most recent 2009 forecast CTA with the total recovery of merger costs since the effective date of the tariffs approved in the prior rate case, Docket Nos. 07-0241/07-0242 (Cons.), in order to derive the remaining balance that should be approved for recovery in the instant proceeding. My adjustments are based on supporting calculations reflected on pages 2 - 4 of Schedules 16.2 N and P that assume the rates set in the instant proceeding will remain in effect for three years, consistent with information provided by the Companies in their initial filing.

<u>Adjustment for Savings Plan Expenses</u>

Q. Did you review the rebuttal testimony of Companies' witness John Hengtgen (NS-PGL Ex. JH-2.0, pages 7 – 8) pertaining to David J. Effron's adjustment for savings plan expenses (AG/CUB/City Exhibit 1.0, pages 22 - 23)?

A. Yes, I did.

Q. Please describe the status of this issue, as you understand it.

A. Based on my understanding of Mr. Hengtgen's rebuttal testimony, he disagreed with Mr. Effron's adjustments because those adjustments reduced operations and maintenance ("O & M") expense for the capitalized portion of the savings plan, but ignored the corresponding increase to rate base that would have occurred if the amounts had been properly capitalized. Mr. Hengtgen further responded that the Companies have included the amount that would be capitalized in the revised rate base for Peoples Gas and North Shore Gas, respectively, although that amount is not separately identified in Mr. Hengtgen's rebuttal exhibits (NS-PGL Ex. JH-2.0, pages 7 - 8, lines 152 – 164).

Q. Do you agree with the Companies' response to Mr. Effron's proposed adjustments to the savings plan expenses?

A. Based on my reading of Mr. Hengtgen's rebuttal testimony, it appeared that the Companies did not accept Mr. Effron's adjustment to reduce O & M expense for the capitalized portion of savings plan costs. However, the Companies had increased their respective rate base for the impact of the capitalized portion of those costs. This approach appeared inconsistent, since the capitalized portion of the savings plan costs should have also been reflected as a corresponding reduction of O & M expense.

Q. Is the Companies' treatment of this adjustment still unclear?

A. No. Based on the Companies' response to data request AG 7.11, it appears that the corresponding reduction to O & M expense for capitalized savings plan costs is reflected in the updated adjustment for O & M Employee Benefits for 2010 as presented by Companies' witness Ms. Sharon Moy (NS-PGL Ex. SM-2.5 N and P). If that is the case, then the Companies would have properly reflected the impact of the capitalized portion of savings plan costs as a reduction to O & M expense and as a corresponding increase to rate base. Accordingly, it seems the Companies have accepted and reflected Mr. Effron's adjustment in their rebuttal positions and no further adjustments are necessary for this issue.

<u>Adjustment to Correct Amortization of Regulatory Asset for Welfare Costs</u>

Q. Did you review the rebuttal testimony of Companies' witness Sharon Moy (NS-PGL Ex. SM-2.0, page 11) pertaining to amortization of the regulatory asset for welfare costs?

A. Yes, I did. Ms. Moy indicated that the amortization of the regulatory asset for welfare costs should be reflected entirely in expense and no portion should have been capitalized in Peoples Gas' and North Shore's original filings. Accordingly, she made an adjustment in her rebuttal testimony to correct the original filings as to the incorrectly capitalized portion of amortization and to reflect the most recent actuarial valuation provided to the Companies (NS-PGL Exs. SM-2.7 N and SM-2.7 P).

Subsequent to the rebuttal testimony of Ms. Moy, the Companies responded to Data Request No. AG 7.12 in which the Companies indicate that statements in NS-PGL Exhibit SM-2.0, page 11, lines 242 – 246 are incorrect. Attachments to this response (PGL AG 7.12 Attach 01 and NS AG 7.12 Attach 01, respectively) calculate the corrected impact on the operating statements of Peoples Gas and North Shore in the instant proceeding, which the Companies indicate they will reflect in their surrebuttal testimony and revenue requirements. Additionally, the Companies indicate a further correction will be reflected in surrebuttal testimony and revenue requirements for the amortization of the regulatory asset for pension costs. They anticipate no impact on rate base because

the capitalized costs are included in the forecasted plant additions, according to the response to AG 7.12 for both Companies.

Q. Please describe the status of this issue, as you understand it.

A. Based on my understanding of the Companies' response to Data Request AG 7.12, it appears a correction is necessary to properly reflect the amortization of the regulatory assets for pension and welfare costs. Due to the close proximity of this response in relationship to the filing date of my rebuttal testimony, I have not completed my analysis of the calculations. However, I have accepted the Companies' calculations for the purposes of reflecting such correction in Staff's rebuttal revenue requirement (ICC Staff Exhibit 15.0, Schedules 15.2 N and P). Given that the Companies through surrebuttal testimony are revising/correcting their rebuttal testimony, I reserve the right to offer supplemental testimony on this issue if necessary.

<u>Conclusion</u>

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

The Peoples Gas, Light and Coke Company
Adjustment to Remove Pension Asset
For the Test Year Ending December 31, 2010
(In Thousands)

Line No.	Description	Subtotal	Total Amount	Source
(a)	(b)	(c)	(d)	(e)
	Rate Base Adjustment:			
1	Pension Asset per Staff		$0	
2	Pension Asset per Company	$152,514		NS-PGL Ex. CMP-1.3, p. 1, line 11, column (D)
3	Adjustment for purchase accounting related to pension asset per Company	2,982		NS-PGL Ex. JH-2.7P, line 15, column (H)
4	Adjusted Pension Asset Per Company		155,496	Line 2 plus line 3
5	Staff Proposed Adjustment to Rate Base		($155,496)	Line 1 minus line 4
6	Accumulated Deferred Income Taxes Per Staff		$0	
7	Accumulated Deferred Income Taxes Per Company		$ (59,731)	NS-PGL Ex. JH-2.7P, line 24, column (I)
8	Staff Proposed Adjustment to Rate Base		$59,731	Line 6 minus line 7
9	Net Rate Base Reduction Per Staff - Removal of Pension Asset net of ADIT		($95,765)	Line 5 plus line 9

The Peoples Gas, Light and Coke Company
Adjustment For Amortization of Merger Costs
For the Test Year Ending December 31, 2010
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Operating Statement Adjustment:		
1	Merger Costs To Achieve recovered through rates effective with prior rate case, Docket Nos. 07-0241/-0242 (Cons.) and the instant proceeding, Docket Nos. 09-0166/-0167 (Cons.), as calculated by Staff	($17,399)	ICC Staff Exhibit 16.0, Schedule 16.2P, page 2, line 11, column (d)
2	Merger Costs To Achieve incurred through June 2009 and projected to be incurred through 2009 per Company using revised forecast	17,083	ICC Staff Exhibit 16.0, Schedule 16.2P, page 3, line 7
3	Difference -- Recoveries in excess of projected Costs To Achieve	($316)	Line 1 plus line 2
4	Projected number of years current rates are expected to remain in effect	3	Company WP C-2.1.1, amortization of rate case expense
5	Staff adjustment to reduce test year amortization of merger costs	($105)	Line 3 divided by line 4

The Peoples Gas, Light and Coke Company
Recovery of Merger Costs in Rates

Line No.	Merger Cost Recovery Period	Company Calculated CTA Recoveries (Response to BAP 14.02, Attachment 02)	Staff Calculated CTA Recoveries (ICC Staff Ex. 2.0, Schedule 2.3, p. 2)	Source of Staff Calculation
(a)	(b)	(c)	(d)	(e)
1	2008 (2/14/08 through 12/31/08, Docket Nos. 07-0241/-0242)	$5,425,000	$5,443,808	Schedule C-26, page 3 of 3, line 4.
2	2009 (1/01/09 through 12/31/09)	6,190,000	6,190,000	Schedule C-26, page 3 of 3, line 3.
	2010 (Docket 09-0166/-0167 (Cons.))			
3	Docket 07-0241/-0242 (Cons.)	6,190,000	407,014	Note 1.
4	Docket 09-0166/-0167 (Cons.)		1,668,564	Note 2.
5	Docket 09-0166/-0167 (Cons.) Ratemaking Adjustment per WPC-2.12	(6,190,000)		
6	Docket 09-0166/-0167 (Cons.) Ratemaking Adjustment per WPC-2.12	1,994,000		
7	Subtotal for 2010	1,994,000	2,075,578	Lines 3 and 4
8	2011 (Docket 09-0166/-0167 (Cons.))	1,994,000	1,786,000	Notes 3 and 4.
9	2012 (Docket 09-0166/-0167 (Cons.))	1,994,000	1,786,000	Notes 3 and 4.
10	2013 (Docket 09-0166/-0167 (Cons.))	0	117,436	Notes 3 and 5.
11	Total recovery of merger costs through 2012 (with Company adjustments proposed in Docket Nos. 09-0166/-0167)	$17,597,000	$17,398,822	Sum of lines 1, 2, and 7 through 10

Notes

1 Docket Nos. 09-0166/-0167, Schedules C-2.12, Adjustment of Test Year 2010 CTA allowed in docket No. 06-0540, caclulated as: $6,190,000 / 365 * 24 days (Jan. 1 - Jan. 24, 2010)

2 Docket Nos. 09-0166/-0167, Schedules C-2.12, Adjustment of Test Year 2010 CTA allowed in docket No. 06-0540, caclulated as: $1,786,000 / 365 * 341 days (Jan. 25 - Dec. 31, 2010)

3 Assumes rates in the instant proceeding remain in effect for 3 years, given 3 year amortization of rate case expense proposed by the Companies (WP C-2.1.1)

4	Approved Merger Costs to Achieve	$6,190,000	Schedule C-26, page 3 of 3, Note 3.
	Company adjustment to reconcile approved to expected costs	(208,000)	Schedule C-26, page 3 of 3, Note 3.
	Recoverable balance at 12/31/09 per Company	5,982,000	Schedule C-26, page 3 of 3, line 2.
	Less: Company Ratemaking Adjustment No. 12	(4,196,000)	Schedule C-2.12, line 8.
	Adjusted Allocated Merger Costs Reflected in Test Year 2010	$1,786,000	Account 930.2, Schedule C-21

5 Docket Nos. 09-0166/-0167, Schedules C-2.12, Adjustment of Test Year 2010 CTA allowed in docket No. 06-0540, caclulated as: $1,786,000 / 365 * 24 days (Jan. 1 - Jan. 24, 2013).

The Peoples Gas, Light and Coke Company
Merger Costs to Achieve

Line No.	Period When Merger Costs Were Incurred/Are Expected To Be Incurred	Merger CTA	Source
1	Actual merger costs incurred during 2007	$12,814,000	Note 1.
2	Actual merger costs incurred during 2008	3,291,000	Note 1.
3	Projected merger costs to be incurred in 2009 reflected in test year	671,000	Note 1.
4	Projected merger costs to be incurred in 2010	0	Note 1.
5	Projected merger costs to be incurred in 2011	0	Note 1.
6	Increase to 2009 projected merger costs based on revised 2009 forecast.	307,075	Note 2.
7	Total Recoverable Merger Costs as calculated by Staff -- See Note 3.	$17,083,075	Sum of lines 1 through 6

Notes

1 Per response to ICC Staff data request BAP-1.02, the only category in which the Companies exceeded the cost caps as determined in Merger Docket No. 06-0540 was the D&O Liability Tail Coverage, Regulatory Process, Facilities Integration, Internal/ External Communication Costs and Intergration Costs. Accordingly, these amounts in excess of the caps are not included in the above amounts for the years 2008 and 2009.

2 Impact of revised 2009 forecast using actual CTA for January - June and revised Company forecast for July - December, as reflected on Schedule 16.2 P, page 4, line 6.

The Peoples Gas, Light and Coke Company
Actual Merger Costs To Achieve Incurred During 2009
For the Test Year Ending December 31, 2010

Line No.	Description	Actual CTA Incurred In 1st Quarter 2009	Actual CTA Incurred In 2nd Quarter 2009	Forecast CTA Incurred In 3rd Quarter 2009	Forecast CTA Incurred In 4th Quarter 2009	Forecast Total CTA Incurred In 2009	Source
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
						(c) through (f)	
1	Separation, Retention and Relocation Costs	$33,316	$39,139	$0	$0	$72,455	Response to BAP-14.03, Attachment 01
2	System Integration & Write-off Costs	59,940	201,160	396,252	248,268	$905,620	Response to BAP-14.03, Attachment 01
3	D & O, Regulatory Process, Facilities, Communications and Integration Costs*	0	0	0	0	$0	Response to BAP-14.03, Attachment 01
4	Revised 2009 Forecast CTA	$93,256	$240,299	$396,252	$248,268	$978,075	Lines 1 through 3
5	Initial Projected 2009 CTA Per Company					671,000	Response to BAP 1.02
6	Difference -- Revised Forecast vs. Initial Projection					$307,075	Line 4 minus line 5

Note
* The Company has already exceeded the cap on recoverable costs for this category, in accordance with the terms of the Merger Docket, No. 06-0540.

North Shore Gas Company
Adjustment For Amortization of Merger Costs
For the Test Year Ending December 31, 2010
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Operating Statement Adjustment:		
1	Merger Costs To Achieve recovered through rates effective with prior rate case, Docket Nos. 07-0241/-0242 (Cons.) and the instant proceeding, Docket Nos. 09-0166/-0167 (Cons.), as calculated by Staff	($2,417)	ICC Staff Exhibit 16.0, Schedule 16.2N, page 2, line 11, column (d).
2	Merger Costs To Achieve incurred through 2008 and projected to be incurred through 2011 per Staff	2,334	ICC Staff Exhibit 16.0, Schedule 16.2N, page 3, line 7
3	Difference -- Recoveries in excess of projected Costs to Achieve	($83)	Line 1 plus line 2
4	Projected number of years current rates are expected to remain in effect	3	Company WP C-2.1.1, amortization of rate case expense
5	Staff adjustment to reduce test year amortization of merger costs	($28)	Line 3 divided by line 4

North Shore Gas Company
Recovery of Merger Costs in Rates

Line No.	Merger Cost Recovery Period	Company Calculated CTA Recoveries (Response to BAP 14.02, Attachment 02)	Staff Calculated CTA Recoveries	Source of Staff Calculation
(a)	(b)	0	(d)	(e)
1	2008 (2/14/08 through 12/31/08, Docket Nos. 07-0241/-0242)	$731,000	$733,463	Schedule C-26, page 3 of 3, line 4.
2	2009 (1/01/09 through 12/31/09)	834,000	834,000	Schedule C-26, page 3 of 3, line 3.
	2010 (Docket 09-0166/-0167 (Cons.))			
3	Docket 07-0241/-0242 (Cons.)	0	54,838	Note 1.
4	Docket 09-0166/-0167 (Cons.)	834,000	247,575	Note 2.
5	Docket 09-0166/-0167 (Cons.) Ratemaking Adjustment per WPC-2.12	(834,000)		
6	Docket 09-0166/-0167 (Cons.) Ratemaking Adjustment per WPC-2.12	275,000		
7	Subtotal for 2010	275,000	302,414	Lines 3 and 4
8	2011 (Docket 09-0166/-0167 (Cons.))	275,000	265,000	Notes 3 and 4.
9	2012 (Docket 09-0166/-0167 (Cons.))	274,000	265,000	Notes 3 and 4.
10	2013 (Docket 09-0166/-0167 (Cons.))	0	17,425	Notes 3 and 5.
11	Total recovery of merger costs through 2012 (with Company adjustments proposed in Docket Nos. 09-0166/-0167)	$2,389,000	$2,417,301	Sum of lines 1, 2, and 7 through 10

Notes

1 Docket Nos. 09-0166/-0167, Schedules C-2.12, Adjustment of Test Year 2010 CTA allowed in docket No. 06-0540, caclulated as: $834,000 / 365 * 24 days (Jan. 1 - Jan. 24, 2010)

2 Docket Nos. 09-0166/-0167, Schedules C-2.12, Adjustment of Test Year 2010 CTA allowed in docket No. 06-0540, caclulated as: $265,000 / 365 * 341 days (Jan. 25 - Dec. 31, 2010)

3 Assumes rates in the instant proceeding remain in effect for 3 years, given 3 year amortization of rate case expense proposed by the Companies (WP C-2.1.1)

4	Approved Merger Costs to Achieve	$834,000	Schedule C-26, page 3 of 3, Note 3.
	Company adjustment to reconcile approved to expected costs	(10,000)	Schedule C-26, page 3 of 3, Note 3.
	Recoverable balance at 12/31/09 per Company	824,000	Schedule C-26, page 3 of 3, line 2.
	Less: Company Ratemaking Adjustment No. 12	(559,000)	Schedule C-2.12, line 8.
	Adjusted Allocated Merger Costs Reflected in Test Year 2010	$265,000	Account 930.2, Schedule C-21

5 Docket Nos. 09-0166/-0167, Schedules C-2.12, Adjustment of Test Year 2010 CTA allowed in docket No. 06-0540, caclulated as: $265,000 / 365 * 24 days (Jan. 1 - Jan. 24, 2013).

North Shore Gas Company
Merger Costs to Achieve

Line No.	Period When Merger Costs Were Incurred/Are Expected To Be Incurred	Merger CTA	Source
1	Actual merger costs incurred during 2007	$1,742,000	Note 1.
2	Actual merger costs incurred during 2008	458,000	Note 1.
3	Projected merger costs to be incurred in 2009 reflected in test year	92,000	Note 1.
4	Projected merger costs to be incurred in 2010	0	Note 1.
5	Projected merger costs to be incurred in 2011	0	Note 1.
6	Increase to 2009 projected merger costs based on revised 2009 forecast.	42,289	Note 2.
7	Total Recoverable Merger Costs as calculated by Staff -- See Note 3.	$2,334,289	Sum of lines 1 through 6

Notes

1 Per response to ICC Staff data request BAP-1.02, the only category in which the Companies exceeded the cost caps as determined in Merger Docket No. 06-0540 was the D&O Liability Tail Coverage, Regulatory Process, Facilities Integration, Internal/ External Communication Costs and Intergration Costs. Accordingly, these amounts in excess of the caps are not included in the above amounts for the years 2008 and 2009.

2 Impact of revised 2009 forecast using actual CTA for January - June and revised Company forecast for July - December, as reflected on Schedule 16.2 N, page 4, line 6.

The North Shore Gas Company
Actual Merger Costs To Achieve Incurred During 2009
For the Test Year Ending December 31, 2010

Line No.	Description	Actual CTA Incurred In 1st Quarter 2009	Actual CTA Incurred In 2nd Quarter 2009	Forecast CTA Incurred In Third Quarter 2009	Forecast CTA Incurred In Fourth Quarter 2009	Forecast Total CTA Incurred In 2009	Source
(a)	(b)	(c)	(d)	(e)	(f)	(g) (c) through (f)	(h)
1	Separation, Retention and Relocation Costs	$4,102	$4,817	$0	$0	$8,919	Response to BAP-14.03, Attachment 01
2	System Integration & Write-off Costs	8,298	27,847	54,856	34,369	125,370	Response to BAP-14.03, Attachment 01
3	D & O, Regulatory Process, Facilities, Communications and Integration Costs*	0	0	0	0	0	Response to BAP-14.03, Attachment 01
4	Revised 2009 Forecast CTA	$12,400	$32,664	$54,856	$34,369	$134,289	Lines 1 through 3
5	Initial Projected 2009 CTA Per Company					92,000	Response to BAP 1.02
6	Difference - Revised Forecast vs. Initial Projection					$42,289	Line 4 minus line 5

Note
* The Company has already exceeded the cap on recoverable costs for this category, in accordance with the terms of the Merger Docket, No. 06-0540.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
Staff Data Requests BAP 12.01-12.04
Dated: June 17, 2009

REQUEST NO. BAP 12.03:

Referring again to the response to Staff Data Request BAP-6.01, please provide a history that reflects for all years 2004 through 2008, and includes actual 2009 results to date:

a). Actual cash contributions to the pension plans by year; and,

b). Pension expense reported in the Peoples Gas financial statements for each respective year.

RESPONSE:

a) Contributions to the pension plans by PGL from 2004 thru 2009 (to date) were:

12 months ended 9/30/04	$17,076	$37,743,228 A
12 months ended 9/30/05	$17,207,047	
12 months ended 9/30/06	$16,207,282	
3 months ended 12/31//06	$0	
12 months ended 12/31/07	$136,264	
12 months ended 12/31/08	$3,920,110	
5 months ended 05/31/09	$120,929	
Projection for calendar 2009	$134,520	

b) Pension expense recorded by PGL from 2004 thru 2009 (to date) were:

12 months ended 9/30/04	$2,977,364	$56,137,260 B
12 months ended 9/30/05	$12,631,794	
12 months ended 9/30/06	$11,507,532	
3 months ended 12/31/06	$1,509,500	
12 months ended 12/31/07	$13,094,999	
12 months ended 12/31/08	$3,034,791	
5 months ended 05/31/09	$2,785,110	
Projection for calendar 2009	$8,596,170	

(A - B) = Difference ($18,394,032)

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
Staff Data Requests BAP 15.01-15.05
Dated: July 29, 2009

REQUEST NO. BAP 15.05:

Provide all documentation and calculations to support the existence of negative pension expense in previous rate proceedings involving Peoples Gas and North Shore Gas.

RESPONSE:

The two most recent Peoples Gas and North Shore Gas rate proceedings in 1995 and 2007 did not contain negative pension expense.