

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY :
 : No. 11-____
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
North Shore Gas Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Introduction**

3 Q. Please state your name and business address.

4 A. My name is Sharon Moy. My business address is Integrys Business Support, LLC
5 (“IBS”), 130 East Randolph Drive, Chicago, Illinois 60601.

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

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

9 **B. Purpose of Testimony**

10 Q. What is the purpose of your testimony?

11 A. The purpose of my testimony is to explain and support certain components of North
12 Shore Gas Company’s (“North Shore”) request for a general increase in rates. The
13 components that I will be addressing are as follows: the test year, the revenue
14 requirement, operating income and expenses, the adjustments to operating income and
15 expenses, and the Gross Revenue Conversion Factor. Other witnesses testifying on
16 behalf of North Shore also support those components in various respects.

17 Q. How is your testimony organized?

18 A. My testimony is divided into the following areas:

19 (1) North Shore’s selection of calendar year 2012 (January 1, 2012, through and
20 including December 31, 2012) as a “future” test year, with certain appropriate
21 adjustments for purposes of ratemaking in this proceeding;

- 22 (2) the appropriate amount of North Shore’s revenue requirement, reflecting
23 adjustments;
- 24 (3) North Shore’s operating income and expenses for purposes of the revenue
25 requirement; including the adjustments; and
- 26 (4) North Shore’s Gross Revenue Conversion Factor (“GRCF”), which is the factor
27 by which North Shore’s cost increases must be “grossed up” by its provision for
28 uncollectible accounts (its uncollectibles factor) and income taxes in order to
29 convert to a revenue basis.

30 **C. Summary of Conclusions**

31 Q. Please summarize the conclusions of your direct testimony.

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

- 33 (1) North Shore’s selection of calendar year 2012, as adjusted, as a “future” test year,
34 consistent with the Illinois Commerce Commission’s (the “Commission” or
35 “ICC”) rules governing a future test year, is proper and reasonable.
- 36 (2) North Shore’s proposed and appropriate revenue requirement, excluding various
37 items recovered through charges under Rider 2-Gas Charge, Rider 11-Adjustment
38 for Incremental Costs of Environmental Activities, Rider EEP-Enhanced
39 Efficiency Program, Rider UEA-Uncollectible Expense Adjustment, Rider VBA-
40 Volume Balancing Adjustment, and Rider FCA-Franchise Cost Adjustment, and
41 after reflecting other adjustments, is \$84,997,000. Based on the information
42 provided in the testimony of other North Shore witnesses and herein, the proposed
43 revenue requirement is just and reasonable, and is the amount required for North
44 Shore to provide safe, adequate, and reliable gas service to its customers. Based

45 on the foregoing, North Shore requires additional base rate revenues (over
46 revenues forecasted under present rates) of \$8,728,000. In other words, that is
47 North Shore's cost recovery shortfall under current rates for the test year.

48 (3) North Shore's proposed and appropriate operating income, with certain
49 appropriate adjustments, after reflecting income taxes, is \$16,297,000.

50 (4) North Shore's properly and correctly calculated Gross Revenue Conversion
51 Factor is 1.671313.

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

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

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

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

58 A. Yes. I am the sponsor of North Shore Exhibit ("NS Ex.") 6.1, which include copies of
59 the following Schedules that have been filed by North Shore pursuant to Part 285 of the
60 Commission's rules (83 Ill. Admin. Code Part 285), A-1, A-2, A-2.1, A-4, C-1, C-2,
61 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,
62 C-2.13, C-2.14, C-2.15; and NS Ex. 6.2 (Schedule C-10, Public and C&P).

63 **E. Background and Experience**

64 Q. What are your responsibilities in your present position?

65 A. My responsibilities include managing and coordinating the preparation and review of
66 testimonies and exhibits pertaining to rate case filings for North Shore and its sister utility

67 The Peoples Gas Light and Coke Company (“Peoples Gas”) pursuant to provisions of
68 Parts 285, 286 and 287 of the Commission’s rules (83 Ill. Admin. Code Parts 285, 286,
69 and 287). In addition, I prepare and analyze the jurisdictional revenue requirement
70 financial models for North Shore and Peoples Gas. I also oversee certain regulatory
71 accounting and reporting requirements for environmental activities for both North Shore
72 and Peoples Gas.

73 Q. Please outline your educational background and business experience.

74 A. In 1996, I received a Bachelor of Science degree, majoring in Accounting, from the
75 University of Illinois at Urbana-Champaign. In 1997, I passed the Certified Public
76 Accountant examination in the State of Illinois. In 2001, I received a Masters of
77 Business Administration, with Distinction, from Keller Graduate School of Management.
78 After graduating from the University of Illinois in 1996, I began my career with Peoples
79 Gas in the General Accounting Department. In 1997, I transferred to Peoples Gas’ State
80 Regulatory Affairs Department and worked as a regulatory accountant through 2006. In
81 2007, Peoples Energy Corporation, which is the parent company of North Shore and
82 Peoples Gas, became a wholly-owned subsidiary of Integrys Energy Group, Inc.
83 (“Integrys”). As a result of the merger and the subsequent ICC-approved formation of
84 IBS, a wholly-owned subsidiary of Integrys, my title was changed to Rate Case
85 Consultant in the Regulatory Affairs Division of IBS.

86 **II. TEST YEAR**

87 Q. What test year does North Shore propose in this proceeding?

88 A. North Shore proposes calendar year 2012, as its future test year, with appropriate
89 adjustments.

90 Q. Is calendar year 2012, subject to applicable adjustments, an appropriate test year?

91 A. Yes. The twelve month period ending December 31, 2012, corresponds with North
92 Shore's year for financial accounting and income tax purposes (its fiscal year). Calendar
93 year 2012 is a "consecutive 12 month period of forecasted data beginning no earlier than
94 the date new tariffs are filed and ending no later than 24 months after the date new tariffs
95 are filed" consistent with 83 Ill. Admin. Code § 287.20(b). North Shore witness
96 Christine Gregor (NS Ex. 5.0) sponsors exhibits that include a statement of operating
97 income for the forecasted future test year and supporting detail. Later in my testimony, I
98 will discuss ratemaking adjustments applicable to the forecasted future test year in
99 calculating North Shore's operating income and expenses for the test year, as adjusted.

100 **III. REVENUE REQUIREMENT**

101 Q. What is North Shore's proposed revenue requirement?

102 A. North Shore's proposed revenue requirement, after reflecting certain adjustments as well
103 as excluding various items recovered through charges under Rider 2, Rider 11,
104 Rider EEP, Rider UEA, Rider VBA and Rider FCA, is \$84,997,000. This amount is the
105 sum of North Shore's proposed net operating income requirement of \$16,297,000 plus its
106 proposed operating expenses of \$68,700,000, as shown on Schedule C-1 of NS Ex. 6.1
107 (column G, line 33 plus line 34).

108 Q. Do you have an opinion as to whether the proposed revenue requirement that North Shore
109 seeks to recover through the base rates to be established in this proceeding is just and
110 reasonable?

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

114 Q. What is the revenue deficiency under existing rates?

115 A. The current rates result in an estimated revenue deficiency (cost recovery shortfall) of
116 \$8,728,000

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

118 A. North Shore witness James Schott's testimony (NS Ex. 1.0) provides a high level
119 overview of the factors driving North Shore's cost recovery shortfall. In addition to my
120 testimony, other witnesses testifying on behalf of North Shore also support components
121 of its proposed rate base and its revenue requirement. North Shore witness Christine
122 Gregor (NS Ex. 5.0) also addresses certain variances and items not reflected in the
123 forecast under present rates. Such items will be updated in the revenue requirement at
124 rebuttal during the rate case proceeding. I sponsor Schedule A-4 in NS Ex. 6.1, which
125 sets forth comparative data between North Shore's current filing for rate relief and its
126 previous rate Order, in ICC Docket Nos. 09-0166/09-00167 Consolidated, dated January
127 21, 2010 ("2009 Rate Case").

128 Q. How was the amount of North Shore's revenue deficiency (cost under-recovery)
129 determined?

130 A. Appropriate amounts for rate base, operating income and expenses, and overall rate of
131 return on rate base for the test year were determined. Each of these calculations is
132 explained or reflected in my testimony. North Shore witnesses Lisa Gast, Paul Moul,

133 John Hengtgen, Christine Gregor, Edward Doerk, James Hoover, John Stabile, and
134 Christine Phillips (NS Exs. 2.0, 3.0, 5.0, 7.0, 8.0, 9.0, 10.0, and 11.0, respectively)
135 provide more detailed explanations of the various rate base, major projects, operating
136 income, and rate of return components.

137 The overall rate of return is applied to rate base to arrive at North Shore's
138 proposed operating income requirement for the test year. The difference between North
139 Shore's proposed operating income requirement for the test year and its forecasted
140 operating income under present rates, as adjusted, yields the operating income deficiency
141 for the test year. The operating income deficiency is "grossed-up" for the effect of
142 income taxes and the uncollectibles factor. This is accomplished by multiplying the
143 operating income deficiency by the Gross Revenue Conversion Factor. That product
144 results in North Shore's revenue deficiency.

145 These calculations are shown in Schedule A-2 of NS Ex. 6.1.

146 Q. What rate base is reflected in North Shore's revenue requirement?

147 A. North Shore's "average" rate base¹ of \$186,897,000 at December 31, 2012, as adjusted, is
148 reflected in the calculation of the revenue requirement supporting the rates filed in this
149 case. Mr. Hengtgen discusses the details of rate base in his testimony. Mr. Doerk and
150 Mr. Stabile also support key components of the rate base in his testimony.

151 Q. What overall rate of return on rate base is reflected in North Shore's revenue
152 requirement?

¹ "Average" rate base is based on average of the amount as of December 31, 2011, and as of December 31, 2012, with exceptions on certain items that are calculated based on 13-month averages consistent with past Commission decisions.

153 A. The overall rate of return on rate base allowed in this case should be North Shore's
154 overall cost of capital (its overall weighted average cost of capital) based on its proposed
155 capital structure.

156 North Shore's projected overall cost of capital for calendar year 2012 is shown in
157 Schedule D-1 of NS Ex. 2.1, sponsored by Ms. Gast. Ms. Gast testimony (NS Ex.2.0)
158 supports the capital structure and the embedded cost of long term debt ("ECLTD")
159 incorporated in the calculation of its overall cost of capital. Mr. Moul's testimony (NS
160 Ex. 3.0) supports the rate of return on common equity ("ROE").

161 North Shore's overall cost of capital and thus its required rate of return on rate
162 base is 8.72%, which is 53 basis points more than the current approved rate of return of
163 8.19% that was approved by the Commission in North Shore's 2009 Rate Case. The cost
164 of capital and rate of return on rate base used in current calculations incorporates an
165 ECLTD of 5.50% versus the ECLTD of 5.48% approved in the 2009 Rate Case. Details
166 supporting the ECLTD are shown in Schedule D-3 of NS Ex. 2.1, also sponsored by
167 Ms. Gast. North Shore's cost of common equity (rate of return on common equity or
168 "ROE") used for purposes of calculations in this proceeding is 11.25% as recommended
169 by Mr. Moul in NS Ex. 3.0. This cost of common equity compares to the rate of return
170 on common equity of 10.33% that was approved by the Commission in the 2009 Rate
171 Case (the Commission approved 10.53% but then subtracted 20 basis points based on
172 North Shore's decoupling rider (10 basis points) and North Shore's uncollectible expense
173 adjustment rider (10 basis points)).

174 The overall cost of capital of 8.72% is based on a *pro-forma* capital structure for
175 the test year consisting of 44% long-term debt and 56% common equity, as shown in

176 Schedule D-1 of NS Ex. 2.1, sponsored by Ms. Gast. As discussed by Ms. Gast, North
177 Shore's test year capital structure does not include any short-term debt.

178 **IV. OPERATING INCOME AND EXPENSES**

179 **A. Overall Operating Income Requirement**

180 Q. What is North Shore's operating income requirement for the test year in order to recover
181 its costs of capital?

182 A. NS Ex. 6.1, Schedule C-1, presents North Shore's Jurisdictional Operating Income
183 Summary for Test Year Ending December 31, 2012, as adjusted. Schedule C-1 shows
184 that North Shore's operating income requirement is \$16,297,000 in order to recover its
185 costs of capital (line 34, column G). The proposed operating income requirement and the
186 underlying calculations in Schedule C-1 represent a reasonable assessment, developed
187 using established Illinois ratemaking methodology, of the levels of expenses and
188 revenues properly attributable to North Shore's applicable operations during the test year.
189 This exhibit indicates that North Shore requires additional base rate revenues of
190 \$8,594,000 (line 1, column F) and additional other revenues of \$134,000 (line 10,
191 column F), in order to recover its operating expenses and earn a rate of return of 8.72%
192 on its original cost rate base of \$186,897,000, i.e., in order to recover its costs of service
193 for the applicable services.

194 Q. Please explain Schedule C-1 of NS Ex. 6.1 in more detail.

195 A. North Shore's forecasted operating results under present rates for the test year are shown
196 in column C of Schedule C-1. Under present rates, North Shore's forecasted operating

197 income is \$11,345,000 as shown on line 34 (column C)². (Under present rates, reflecting
198 ratemaking adjustments, North Shore's forecasted operating income is \$11,075,000, as
199 shown in Schedule C-1, line 34, column E, and also in Schedule A-2, line 3, column C, in
200 NS Ex. 6.1.)

201 Column D shows the operating expense and operating income effects of the
202 ratemaking adjustments North Shore is proposing in this proceeding. The amounts
203 shown in column D were taken from Schedule C-2, Ratemaking Adjustments to
204 Operating Income, Test Year Ending December 31, 2012, in NS Ex. 6.1, which I will
205 discuss later in my testimony.

206 Column E is the arithmetic total of the amounts shown in columns C and D.
207 Based on the operating income shown in column E, North Shore's overall rate of return at
208 present rates for the test year is 5.93% on its adjusted original cost rate base which is also
209 in Schedule A-2, line 5, column C in NS Ex. 6.1.

210 Column F sets forth the effects of the additional annual revenues (cost recovery)
211 required in order for North Shore to recover its applicable costs of service. The
212 additional revenues that would be generated under the rates filed in this case total
213 \$8,728,000, as shown on line 11 of column F. The filed rates would, after deducting the
214 related income taxes and the provision for uncollectible accounts (which deduction is the
215 same calculation as reversing the application of the Gross Revenue Conversion Factor),
216 add \$5,222,000 to operating income (line 34, column F).

² Column C of Schedule C-1 ties to Test Year Column C of Schedule C-4 Comparative Operating Income Statements for Prior Years and the Test Year. This does not include items identified by North Shore witness Christine Gregor (NS Ex. 5.0) that are not reflected in the forecast under present rates. Such items will be updated in the revenue requirement at rebuttal during the rate case proceeding.

217 Column G is a *pro forma* statement of North Shore's estimated operating income
218 requirement, as adjusted for the test year under the proposed rates.

219 As shown in column G, the proposed rates would produce Operating Revenues of
220 \$84,997,000 (line 11), and operating income of \$16,297,000 (line 34). The result would
221 be a rate of return of 8.72% on North Shore's adjusted original cost rate base as of
222 December 31, 2012, as adjusted. This return is equivalent to North Shore's overall cost
223 of capital for calendar year 2012 as shown in Schedule D-1 of NS Ex.6.1.

224 **B. Adjustments to Operating Income and Expenses**

225 Q. Please describe North Shore's ratemaking adjustments to operating income and expenses.

226 A. NS Ex. 6.1, Schedule C-2, summarizes North Shore's proposed ratemaking adjustments
227 to operating income and expenses for the test year. Columns C through J indicate (1) the
228 description of each adjustment, (2) how each adjustment affects the various categories of
229 operating revenues and expenses, and (3) the effect of each adjustment on North Shore's
230 operating income and expenses. Column K contains the arithmetic subtotals or total of
231 the figures shown in columns C through J. Page 3, Column K of Schedule C-2 shows the
232 total of all adjustments which corresponds to the information shown in column D of
233 Schedule C-1.

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

235 A. Yes. All of the adjustments shown on Schedule C-2 are both appropriate and correct.
236 These items adjust the calendar year 2012 forecast in order to provide data for the test
237 year that is appropriate for setting rates that will be in effect in 2012. Details of the
238 specific adjustments to Operating Income and Expenses are shown on Schedules C-2.1
239 through C-2.15 of NS Ex.6.1.

240 Q. Please explain each of the adjustments.

241 A. The adjustment shown on Schedule C-2.1 is necessary to remove the non-base rate
242 revenues and costs recovered under Rider 2 and Rider 11 from the calculation of the
243 revenue requirement. This adjustment decreases Operating Revenues by \$162,674,000,
244 by reducing Cost of Gas by \$148,869,000 and general Operations & Maintenance
245 (“O&M”) expenses by \$13,805,000. This adjustment has no net effect on operating
246 income.

247 The adjustment shown on Schedule C-2.2 is necessary to remove non-base rate
248 Rider EEP from the calculation of the revenue requirement. This adjustment decreases
249 Operating Revenues by \$1,116,000 and general O&M expenses by \$1,116,000. This
250 adjustment has no net effect on test year operating income.

251 The adjustment shown on Schedule C-2.3 is necessary to remove all non-base rate
252 Rider UEA activity from the calculation of the revenue requirement. This adjustment
253 increases Operating Revenues by \$86,000 and increases general O&M expenses by
254 \$107,000, and, after reflecting income tax effects, decreases test year operating income
255 by \$12,000.

256 The adjustment shown on Schedule C-2.4 is necessary to remove non-base rate
257 Rider VBA–Volume Balancing Adjustment Charges from the calculation of the revenue
258 requirement. This adjustment increases Operating Revenues by \$629,000 and, after
259 reflecting income tax effects, increases test year operating income by \$379,000.

260 The adjustment shown on Schedule C-2.5 is necessary to (a) remove non-base
261 rate Rider FCA charges recovered in 2012 for 2011 activity and (b) remove 2012 costs
262 in Account 927-Franchise Requirements from the calculation of the revenue

263 requirement. This adjustment decreases Operating Revenues by \$1,264,000 and
264 decreases general O&M expenses by \$1,114,000 and, after reflecting income tax effects,
265 decreases test year operating income by \$90,000.

266 The adjustment shown on Schedule C-2.6 amortizes the projected rate case
267 expense of \$2,721,000 to be incurred in this proceeding over two years for ratemaking
268 purposes. North Shore, in order to seek to narrow the issues in this proceeding, has
269 foregone a related rate base adjustment that would recover carrying costs for rate case
270 expenses. A two-year amortization period was chosen based on what North Shore has
271 experienced between its past rate cases. This adjustment increases general O&M expense
272 by \$1,361,000 and, after reflecting income tax effects, decreases test year operating
273 income by \$820,000. The Commission has traditionally approved the amortization of
274 rate case expenses as just and reasonable expenses for ratemaking purposes in numerous
275 rate cases.

276 The adjustment shown on Schedule C-2.7 is necessary to adjust the remaining
277 unamortized rate case expense approved in ICC Docket No. 07-0241/07-0242 (Cons.)
278 over a two-year amortization period to avoid over-recovery in rates effective 2012. This
279 adjustment decreases general O&M expenses by \$191,000 and after reflecting income
280 taxes, increases test year operating income by \$115,000.

281 The adjustment shown on Schedule C-2.8 is necessary to adjust the remaining
282 unamortized rate case expense approved in the 2009 Rate Case over a two-year
283 amortization period to avoid over-recovery in rates effective 2012. This adjustment
284 decreases general O&M expenses by \$258,000 and after reflecting income taxes,
285 increases test year operating income by \$155,000.

286 The adjustment shown on Schedule C-2.9 is necessary in order to recognize, for
287 ratemaking purposes, the amount of test year interest expense on customer deposits,
288 thereby achieving consistency with North Shore's proposal to deduct the year-end
289 balance of customer deposits from its original cost rate base for the test year. This
290 adjustment increases general O&M expenses by \$52,000 and, after reflecting income tax
291 effects, decreases test year operating income by \$31,000.

292 The adjustment shown on Schedule C-2.10 is necessary in order to recognize, for
293 ratemaking purposes, the amount of test year interest expense on Budget Plan Balances,
294 thereby achieving consistency with North Shore's proposal to include the 13-month
295 average of net Budget Plan Balances in its original cost rate base for the test year. This
296 adjustment increases general O&M expenses by \$64,000 and, after reflecting income tax
297 effects, decreases test year operating income by \$38,000.

298 The adjustment shown on Schedule C-2.11 is necessary to recognize North
299 Shore's charitable donations, which are recorded below-the-line in the cost of service, for
300 accounting purposes in accordance with Commission requirements. Although the
301 Commission changed the Uniform System of Accounts in 2003 to require that donations
302 be recorded below-the-line in Account 426.1-Donations rather than above-the-line in
303 Account 930.2-Miscellaneous General Expenses, it is North Shore's understanding that
304 this accounting change was not intended to change the treatment of donations for
305 ratemaking purposes. This adjustment increases general O&M Expenses by \$125,000
306 and, after reflecting income tax effects, decreases test year operating income by \$75,000.
307 The Commission has traditionally allowed recovery of charitable donations in North
308 Shore's rate case proceedings.

309 The adjustment shown on Schedule C-2.12 is necessary to adjust the remaining
310 unamortized Cost-to-Achieve (“CTA”) expenses allowed in the 2009 Rate Case over a
311 two-year amortization period to avoid over-recovery in rates effective 2012. This
312 adjustment decreases general O&M expenses by \$106,000 and after reflecting income
313 taxes, increases test year operating income by \$64,000.

314 The adjustment shown on Schedule C-2.13 is necessary in order to eliminate the
315 forecasted income tax effects related to items which are not included in revenue
316 requirement for ratemaking purposes. Interest expense items on customer refunds, line of
317 credit fee, customer deposits, and budget accounts are below-the-line expense items for
318 ratemaking purposes, which are not reflected in operating income; thus, it is appropriate
319 to remove the associated income tax effects from net operating income. This adjustment
320 increases income taxes and decreases test year operating income by \$99,000.

321 The adjustment shown on Schedule C-2.14 is necessary in order to recognize the
322 additional Illinois invested capital tax which North Shore will incur due to the proposed
323 increase in operating income. An increase to operating income correspondingly results in
324 an increase to North Shore’s retained earnings and thus to its total capitalization, which is
325 the variant factor in the invested capital tax calculation. This adjustment increases taxes
326 other than income taxes by \$42,000 and, after reflecting income taxes effects, decreases
327 test year operating income by \$25,000.

328 The adjustment shown on Schedule C-2.15 is necessary to increase North Shore’s
329 income taxes to reflect the synchronized levels of long-term debt interest costs associated
330 with test year original cost rate base. This adjustment decreases income taxes and
331 increases test year operating income by \$207,000.

332 Q. You discussed the adjustment for rate case expenses of this case. Section 9-229 of the
333 Public Utilities Act requires the Commission to expressly address in its final Order the
334 justness and reasonableness of amounts expended by a public utility to compensate
335 attorneys or technical experts to prepare and litigate a general rate case filing. What is
336 North Shore's approach to determine expenses incurred for outside legal and expert
337 consultants for a general rate case filing are "just and reasonable"?

338 A. North Shore, in planning and budgeting for the preparation and prosecution of its 2011
339 rate case filing, sought to incur only prudent and reasonable rate case expenses. Factors
340 identified include: (1) efficiencies resulting from simultaneous preparation and
341 consolidation of Peoples Gas' and North Shore's rate case filings; (2) selection of
342 outside counsel and expert resources with extensive experience in Illinois rate case and
343 other proceedings and negotiations on appropriate estimated hours of works and rates;
344 (3) cost effective use of IBS to provide rate case support services; and (4) extensive
345 procedures involved in prosecuting a rate case after filing which include: the discovery
346 process, analysis of Staff and intervenor direct and rebuttal testimony, assistance with
347 preparation of North Shore's rebuttal and surrebuttal testimonies, evidentiary hearing,
348 post-hearing briefs and reply briefs, analysis of the Administrative Law Judges'
349 Proposed Order, briefs and reply briefs on exception, preparation and participation in
350 oral argument, analysis of the final Commission Order, and preparation of a compliance
351 filing.

352 The amounts on North Shore's Part 285 Schedule C-10 of NS Ex. 6.2 reflect
353 prudent and reasonable budgets for the work of the outside consultants, the outside legal

354 counsel, and applicable IBS personnel on the preparation and prosecution of this rate
355 case.

356 **V. GROSS REVENUE CONVERSION FACTOR**

357 Q. What is the proposed Gross Revenue Conversion Factor for the test year?

358 A. Schedule A-2.1 of NS Ex. 6.1 sets forth the proper and correct calculations necessary to
359 produce this factor. North Shore's GRCF is 1.671313, as shown on line 9 of
360 Schedule A-2.1. As is reflected on the Schedule, the factors that influence the GRCF are
361 the uncollectibles rate and federal and state income taxes.

362 Q. Does this conclude your direct testimony?

363 A. Yes.