

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

NORTH SHORE GAS COMPANY	:	
	:	No. 11-0280
Proposed general increase in rates for gas service.	:	
	:	(cons.)
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	
	:	No. 11-0281
Proposed general increase in rates for gas service.	:	

Rebuttal Testimony of

**CHRISTINE PHILLIPS**  
Manager, Benefits Accounting  
IntegrYS Business Support, LLC

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

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 Q. Please state your name.

4 A. Christine M. Phillips.

5 Q. Are you the same Christine M. Phillips who submitted direct testimony on behalf of The  
6 Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas Company  
7 (“North Shore”) (together, “the Utilities”) in these consolidated Dockets?

8 A. Yes.

9 **B. Purposes of Testimony**

10 Q. What is the purpose of your rebuttal testimony?

11 A. The purpose of my rebuttal testimony is to provide updated numbers, based on annually  
12 updated calculations that were provided to the Utilities by their outside actuaries on  
13 May 25, 2011, for the 2012 test year, for: (1) the Utilities’ respective pension and benefits  
14 expenses figures in their operating expenses and (2) the Utilities’ respective “Retirement  
15 Benefits, Net” figures in rate base.

16 The pension and benefits expenses figure for each utility is the sum of its test year  
17 pension expense and its test year other post-employment benefits (“OPEB”) expense, as  
18 calculated by the outside actuaries. The “Retirement Benefits, Net” figure for each utility  
19 is the sum of its average test year net prepaid pension (its “net pension asset”) and its  
20 average test year net accrued OPEB liability on its balance sheet, as calculated by its  
21 outside actuaries.

22 My rebuttal testimony also responds to portions of the respective direct testimony  
23 of Illinois Commerce Commission (“the “Commission” or “ICC”) Staff (“Staff”) witness

24 Theresa Ebrey and Governmental and Consumer Intervenors ( “GCI”)<sup>1</sup> witness David J.  
25 Effron regarding the “Retirement Benefits, Net” figures in the Utilities’ rate bases.

26 **C. Summary of Conclusions**

27 Q. Please summarize the conclusions you make in your rebuttal testimony.

28 A. According to the most recent outside actuary valuations, which were provided to the  
29 Utilities on May 25, 2011: (1) for Peoples Gas, test year pension and benefits expenses  
30 decreased from the initial filing amount by a net \$9,242,000; (2) for Peoples Gas, the  
31 average test year net pension asset decreased from the initial filing amount by \$681,500  
32 and the average test year net accrued OPEB liability decreased from the initial filing  
33 amount by \$39,375,000, resulting in a net increase in Retirement Benefits, Net in rate  
34 base of \$38,693,500; (3) for North Shore, test year pension and benefits expenses  
35 decreased from the initial filing amount by a net \$946,000; and (4) for North Shore, the  
36 average test year net pension asset increased from the initial filing amount by \$733,500  
37 and the average test year net accrued OPEB liability decreased from the initial filing  
38 amount by \$4,895,000, resulting in a net increase in Retirement Benefits, Net in rate base  
39 of \$5,628,500.

40 The Retirement Benefits, Net should be included in rate base. Alternatively, the  
41 pension asset and accrued OPEB liability should be treated consistently in rate base, *i.e.*,  
42 both included or both excluded.

43 **D. Itemized Attachments to Rebuttal Testimony**

44 Q. Are you submitting any attachments to your rebuttal testimony?

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<sup>1</sup> GCI is comprised of the Illinois Attorney General’s Office, the Citizens Utility Board, and the City of Chicago.

45 A. Yes. I am submitting:  
46 1. Revised Summary of Employee Benefit Costs (NS-PGL Exs. 27.1N and 27.1P)  
47 2. Revised Schedule of Retirement Benefits, Net (NS-PGL Exs. 27.2N and 27.2P)  
48 3. A copy of the narrative and one attachment to the Utilities' supplemental  
49 responses to Staff data requests PGL and NSG TEE 1.17 (NS-PGL Exs. 27.3N  
50 and 27.3P).

51 Q. Were these exhibits prepared under your supervision and direction

52 A. Yes. For NS-PGL Exs. 27.3N and 27.3P, only the portion of the responses pertaining to  
53 the adjustment for the change in retirement benefits, net was prepared under my direction  
54 and supervision.

55 **II. UPDATED PENSION AND OPEB COSTS**

56 Q. Are updated outside actuary numbers for pension and OPEB operating expense and  
57 balance sheet amounts available for 2011 and 2012 for Peoples Gas and North Shore?

58 A. Yes, updated actuarial valuation results are now available for 2011 and 2012 for all of the  
59 Integrys companies, including the Utilities and Integrys Business Support, LLC ("IBS").  
60 IBS is relevant because portions of its pension and OPEB costs are allocated to the  
61 Utilities.

62 Q. Why are these updated actuary amounts being provided at this time?

63 A. Updated actuary amounts are being supplied in light of what I understand to be a general  
64 position of Staff and the Commission that a utility's pension and benefits expenses  
65 amounts in operating expenses and its pension and OPEB balance sheet items in rate base  
66 should be based on the most recent actuarial study. The updated calculations that were

67 provided to the Utilities by their outside actuaries on May 25, 2011, are the most recent  
68 actuarial study, and they obviously were not available when the Utilities made their initial  
69 rate case filings on February 15, 2011. Additionally, the updated actuary amounts also  
70 reflect additional contributions of \$67,500,000 for Peoples Gas and \$7,500,000 for North  
71 Shore to the OPEB Trust as a result of “bonus depreciation”.

72 Q. How do the new actuarial estimates for 2012 as to pension and benefits expenses  
73 compare to what was included in the initial Part 285 filing made on February 15, 2011,  
74 for Peoples Gas?

75 A. As indicated in the attached NS-PGL Ex. 27.1P, Page 1 of 2, compared to the initial  
76 filing, the current forecast for Peoples Gas 2012 test year pension expense increased by  
77 \$210,000 (line 15) and the current forecast for OPEB costs decreased by \$8,962,000  
78 (lines 6 and 11). The allocation of IBS test year pension and benefits expenses to Peoples  
79 Gas decreased by \$490,000 (line 39). The total impact on Peoples Gas’ test year pension  
80 and benefits expenses is a net decrease of \$9,242,000.

81 NS-PGL Ex. 27.1P, Page 2 of 2, details the current forecast for IBS 2012 test year  
82 pension and OPEB expenses. Compared to the initial filing, the current forecast for IBS  
83 pension expense decreased by \$490,000 (line 20) and the current forecast for OPEB  
84 expense decreased by \$758,000 (lines 9 and 14). The total impact on IBS expenses is a  
85 net decrease of \$1,248,000 (line 44). Using the percentage allocated to Peoples Gas in  
86 the initial filing of 39.3% (line 46), this results in a decrease of \$490,000 (line 48) being  
87 allocated to Peoples Gas, as indicated above.

88 Q. How do the new actuarial estimates for 2012 as to pension and benefits expenses  
89 compare to what was included in the initial Part 285 filing made on February 15, 2011,  
90 for North Shore?

91 A. As indicated in the attached NS-PGL Ex. 27.1N, Page 1 of 2, compared to the initial  
92 filing, the current forecast for North Shore 2012 test year pension expense decreased by  
93 \$22,000 (line 13) and the current forecast for OPEB expense decreased by \$833,000  
94 (lines 6 and 11). The allocation of IBS test year pension and benefits expenses to North  
95 Shore decreased by \$91,000 (line 36). The total impact on North Shore's test year  
96 pension and benefits expenses is a net decrease of \$946,000.

97 NS-PGL Ex. 27.1N, Page 2 of 2, for convenience, sets forth the same current  
98 forecast for IBS 2012 test year pension and OPEB expenses as does NS-PGL Ex. 27.1P,  
99 page 2 of 2. Using the percentage allocated to North Shore in the initial filing of 7.3%  
100 (line 46), the current forecast results in a decrease of \$91,000 (line 48) being allocated to  
101 North Shore, as indicated above.

102 Q. What is driving the changes in the updated forecasted pension costs for the test year?

103 A. The change in pension expense was due a change in the discount rate of 5.80% compared  
104 to 6.15% in the initial filing offset by lower than expected pay increases and higher than  
105 expected retirements/terminations.

106 Q. What is driving the decreases in the updated forecasted OPEB costs for the test year?

107 A. The OPEB expense decreases in the test year were primarily due to expected additional  
108 funding of \$67,500,000 for Peoples Gas and \$7,500,000 for North Shore, as indicated in  
109 the supplemental response to Staff data requests PGL and NSG TEE 1.17 (the relevant  
110 portions of which are attached as NS-PGL Exs. 27.3P and 27.3N). This additional

111 funding reduced forecasted 2012 test year OPEB expense by \$5,568,750 for Peoples Gas  
112 and by \$618,750 for North Shore. Also impacting the decreased OPEB expense was  
113 favorable claims experience for the Peoples Energy Corporation (“PEC”) postretirement  
114 welfare plan, which includes legacy PEC employees at Peoples Gas, North Shore, and  
115 IBS. The favorable claims experience resulted in lower employer obligation and service  
116 cost.

117 Q. Are there any changes to pension and benefit costs other than those attributed to updated  
118 actuarial reports?

119 A. Yes, the amount of capitalized benefit costs for both Peoples Gas and North Shore were  
120 also updated. These updates are discussed by Ms. Christine Gregor in her rebuttal  
121 testimony (NS-PGL Ex. 21.0).

122 Q. Have the current actuary numbers impacted the balance sheet for Peoples Gas?

123 A. Yes. As indicated on NS-PGL Ex. 27.2P, the balance sheet amounts have also been  
124 updated by the outside actuaries. These updated amounts primarily reflect the impact of  
125 the actual amounts that were recorded at December 31, 2010, in accordance with  
126 Generally Accepted Accounting Principles (“GAAP”), as well as additional funding as a  
127 result of bonus depreciation. This update impacts the forecasted balances for 2011 and  
128 the 2012 test year.

129 For the 2012 test year, the initial filing reflected an average accrued pension  
130 liability of \$112,889,500 with a related regulatory asset of \$231,990,500; reflecting a net  
131 pension asset of \$119,101,000. The updated forecasted average balances for the 2012  
132 test year are an accrued pension liability of \$114,597,500 with a related regulatory asset

133 of \$233,017,000; reflecting a net pension asset of \$118,419,500, a net decrease of  
134 \$681,500.

135 With respect to the 2012 test year, the initial filing reflected an average accrued  
136 OPEB liability of \$121,815,000 with a related regulatory asset of \$32,907,500; reflecting  
137 a net accrued OPEB liability of \$88,907,500. The updated forecasted average balances  
138 for 2012 are an accrued OPEB liability of \$75,068,500 with a related regulatory asset of  
139 \$25,536,000; reflecting a net OPEB liability of \$49,532,500, a net decrease of  
140 \$39,375,000.

141 Q. Have the current actuary numbers impacted the balance sheet for North Shore?

142 A. Yes. As indicated on NS-PGL Ex. 27.2N, the balance sheet amounts have also been  
143 updated by the outside actuaries. These updated amounts primarily reflect the impact of  
144 the actual amounts that were recorded at December 31, 2010, in accordance with GAAP,  
145 as well as additional funding as a result of bonus depreciation. This update impacts the  
146 forecasted balances for 2011 and the 2012 test year.

147 For the 2012 test year, the initial filing reflected an average accrued pension  
148 liability of \$10,235,000 with a related regulatory asset of \$13,443,000; reflecting a net  
149 pension asset of \$3,208,000. The updated forecasted average balances for 2012 are an  
150 accrued pension liability of \$9,342,500 with a related regulatory asset of \$13,284,000;  
151 reflecting a net pension asset of \$3,941,500, a net increase of \$733,500.

152 With respect to the 2012 test year, the initial filing reflected an average accrued  
153 OPEB liability of \$13,889,000 with a related regulatory asset of \$2,249,000; reflecting a  
154 net OPEB liability of \$11,640,000. The updated forecasted average balances for 2012 are

155 an accrued OPEB liability of \$8,623,000 with a related regulatory asset of \$1,878,000;  
156 reflecting a net OPEB liability of \$6,745,000, a net decrease of \$4,895,000.

157 **III. RESPONSES TO STAFF AND GCI DIRECT TESTIMONY**

158 **A. Proposed Adjustments to Retirement Benefits, Net**

159 Q. Did you review the testimony of Staff witness Theresa Ebrey (ICC Staff Ex. 3.0) and  
160 GCI witness David J. Efron (GCI Ex. 2.0)?

161 A. Yes, I did.

162 Q. What aspect of Ms. Ebrey's testimony will you be addressing?

163 A. I will be addressing Ms. Ebrey's proposed adjustments to remove the net pension assets  
164 from rate base.

165 Q. What aspect of Mr. Efron's testimony will you be addressing?

166 A. I will be addressing Mr. Efron's proposed adjustments to remove the net pension assets  
167 from rate base.

168 Q. What is Staff witness Ms. Ebrey's proposal regarding the Utilities' respective Retirement  
169 Benefits Net, figures in rate base?

170 A. Ms. Ebrey proposes to remove the Utilities' respective net pension assets from rate base  
171 but keep the OPEB liabilities in rate base. (Ebrey Dir., ICC Staff Ex. 3.0, pp. 3 - 7 and  
172 Schedules 3.1 N and P).

173 Q. What is GCI witness Mr. Efron's proposal regarding the Utilities' respective Retirement  
174 Benefits Net, figures in rate base?

175 A. Mr. Effron also proposes to remove the Utilities' respective net pension assets from rate  
176 base and keep the OPEB liabilities in rate base. (Effron Dir., GCI Ex. 2.0, pp. 8 - 10 and  
177 GCI Ex. 1.2, Sched. B).

178 Q. Do you agree with Ms. Ebrey's and Mr. Effron's proposed adjustments?

179 A. No, I do not. The basis for Ms. Ebrey's disallowance is that the "pension asset should not  
180 be included in rate base because it was not created with funds supplied by its  
181 shareholders." She cites Peoples Gas' response to Staff data request TEE 9.01 and North  
182 Shore's response to Staff Data Request TEE 9.02 as "evidence" that customers funded  
183 the pension asset because the statement of cash flows shows net cash provided by  
184 operating activities. The net cash from operating activities includes the portion of what  
185 customers pay on their bills for return of and on rate base as approved during the  
186 ratemaking process.

187 Q. What does a pension asset represent?

188 A. A pension asset, as used in the Utilities' proceedings, is equal to pension expense  
189 recorded under GAAP to date net of amounts funded to date. An asset results when  
190 funding is greater than expense incurred to date. Recording negative expense, as was the  
191 case from 1996 to 2003 for Peoples Gas, also results in an increased pension asset.

192 Q. Who owns the net pension asset and the assets in the pension trust?

193 A. The net pension asset is part of the utility's balance sheet, and, with respect to defined  
194 benefit plans, which is what is involved here, the utility owns the assets via the trust, with  
195 the employees being the beneficiaries of the trust.

196 Q. In the last case, Docket Nos. 09-0166/09-0167 (Cons.), did North Shore have a pension  
197 asset?

198 A. No, it did not. As indicated in my direct testimony on lines 303 – 304, North Shore made  
199 contributions to the pension plan in the amount of \$4.0 million in 2009 and \$11.1 million  
200 in 2010. As a result of these contributions, North Shore now has a pension asset.

201 Q. Do customers benefit from these additional contributions made to the pension plan?

202 A. Yes, they do. As indicated on Lines 144 and 146 of my Direct testimony, the  
203 \$4.0 million funded in 2009 reduced pension expense by about \$340,000 beginning in  
204 2010 and the \$11.1 million funded in 2010 reduced pension expense beginning in 2011  
205 by about \$920,000. Clearly, customers benefit from contributions made to the pension  
206 plan. These benefits to customers are annual, as long as the assets remain in the trust.

207 Q. Did customers supply the funds for North Shore's pension contributions?

208 A. No. The pension expense for North Shore included in the prior case was about \$2.9  
209 million. Assuming that amount was "supplied" by customers during both 2009 and 2010,  
210 customers would have "supplied" about \$5.8 million over the two years. Amounts  
211 funded to the pension plan by North Shore over the same two-year period totaled \$15.1  
212 million. North Shore actually funded \$9.3 million more than the pension expense  
213 reflected in operating expenses in the 2009 rate case.

214 Q. Please describe NS-PGL Exs. 27.2N and 27.2P. Specifically, describe the items  
215 comprising the net pension asset and the net OPEB liability.

216 A. The net pension asset and net OPEB liability are calculated as the funded status of the  
217 plan, calculated in accordance with GAAP, offset by amounts recorded to regulatory

218 assets or liabilities. The regulatory assets and liabilities represent amounts that have not  
219 yet been reflected in expense. Under GAAP, gains and losses resulting from the actuarial  
220 valuation process are allowed to be “smoothed” into cost over a five-year period.

221 For Peoples Gas, NS-PGL Ex. 27.2P Line 5 shows that the pension plan is  
222 unfunded by \$121.0 million at December 31, 2012. At the same date, as shown on  
223 Line 12, Peoples Gas has \$229.0 million in regulatory assets related to the pension plan.  
224 The net of these two amounts, as shown on Line 13, is a net pension asset of \$108.0  
225 million. For the net OPEB liability, as shown on Line 19, the plan is unfunded by \$36.6  
226 million at December 31, 2012. Peoples Gas has a net regulatory asset, as shown on line  
227 24, of \$23.8 million at the same date. The net of these two amounts is net OPEB liability,  
228 shown on Line 25, of \$12.5 million.

229 For North Shore, NS-PGL Ex. 27.2N Line 5 shows that the pension plan is  
230 unfunded by \$10.2 million at December 31, 2012. At the same date, as shown on  
231 Line 12, North Shore has \$12.6 million in regulatory assets related to the pension plan.  
232 The net of these two amounts, as shown on Line 13, is a net pension asset of \$2.5 million.  
233 For the net OPEB liability, as shown on Line 19, the plan is unfunded by \$3.8 million at  
234 December 31, 2012. North Shore has a net regulatory asset, as shown on Line 24, of \$1.6  
235 million at the same date. The net of these two amounts is net OPEB liability, shown on  
236 Line 25, of \$2.2 million.

237 Q. Did customers “supply” the amounts recorded as regulatory assets on NS-PGL Exs.  
238 27.2N and 27.2P Lines 12 and 24 for pension and OPEB, respectively?

239 A. No, they did not. The net regulatory assets reflected on Lines 12 and 24 of NS-PGL Exs.  
240 27.2N and 27.2P represent net actuarial losses that, for GAAP purposes, have not yet  
241 been reflected in periodic pension and OPEB expense.

242 Q. Do you agree with the proposed adjustment to exclude the pension assets from rate base  
243 while keeping the accrued OPEB liabilities in rate base?

244 A. No, I do not. These two items are similar in nature and should be treated consistently.  
245 Both represent a commitment to pay retirees either a pension or a promised health and  
246 welfare benefit. Both have actuarially-calculated expense recognized during the  
247 employee's active service, although benefits are not paid until after retirement. Both  
248 maintain plan assets in Trusts specified for the payment of plan benefits only; and both  
249 are post retirement benefits represented on the Balance Sheet as expense net of funding. I  
250 can see no reason to justify the inconsistent treatment in the ratemaking process.

251 Of course, if the Commission were to include the OPEB liabilities in rate base,  
252 regardless of whether the pension assets are included, then the OPEB liabilities amounts  
253 would need to be reduced to reflect the updated figures I discussed earlier.

254 Q. Does this conclude your rebuttal testimony?

255 A. Yes.