ICC Docket No. 11-0280
North Shore Gas Company's Response to
Staff Data Requests TEE 1.01-1.24
Dated: February 28, 2011

REQUEST NO. TEE 1.17:

The Small Business Jobs Act of 2010 enacted on September 27, 2010 includes an extension of the incentive from the American Recovery and Reinvestment Act of 2009 that allows companies to claim an accelerated depreciation deduction for Federal income tax purposes. Has this accelerated depreciation and the related impacts on Deferred Income Taxes been reflected in the Company's revenue requirements? If not, provide the adjustments necessary to reflect the accelerated depreciation and all related adjustments. If so, please provide reference to the filed schedules where the calculations of the accelerated depreciation can be found.

RESPONSE:

As stated in Schedules G-3 and G-5 of North Shore's Part 285 filing, the current forecast does not include the effects of the accelerated depreciation deduction mentioned above. These schedules provide a preliminary estimate of the amount of additional deferred taxes associated with the additional tax depreciation.

However, as also disclosed on Schedules G-3 and G-5, North Shore notes that there are additional tax changes each occurring after the forecast cut-off date. These include: (1) a tax accounting method change and (2) the change in Illinois income tax rates. Because these changes interrelate, North Shore is recalculating income taxes, the results of which may vary from the preliminary estimates provided in Schedules G-3 and G-5. North Shore will supplement the response to this data request once it has completed the recalculation of income taxes.

Further, for the reasons stated above, North Shore notes that the preliminary estimates in Schedule G-3 and G-5 do not translate directly to effects on rate base, cost of service and in the case of Illinois rate change, the revenue conversion factor. NS TEE 1.17 Attach 01 translates these accounting disclosures into estimated amounts for these items using the following facts / assumptions:

- 2011 amounts are included

- Interrelationships were not considered when these estimates were developed. As mentioned above the numbers here will be supplemented. For example, neither the bonus depreciation amount nor the tax planning amount reflect the Illinois rate change. Also, the estimates of the tax planning and the bonus depreciation could potentially contain overlaps in deductions.

- North Shore computes deferred taxes consistent with Commission's Order in Docket No. 83-0309. Therefore, for ratemaking purposes, the economic effects included in rate base and cost of service are only those amounts and balances computed consistent with that Order and that method.

- North Shore will record the adjustment to deferred tax amounts resulting from FAS 109 by recording the offset to regulatory assets or liabilities, consistent with Generally Accepted Accounting Principles

- The deferred taxes and offsetting regulatory assets are treated as items excluded from rate base as there should be no impact from the total of the two items

- Given the above, the amounts have been computed without the long scheduling process required by paragraph 18 of FAS 109, as only the FAS 109 adjustments and offsetting regulatory assets / liabilities need that process

- The effects of the tax accounting method change is reduced pursuant to the proposal in John Hengtgen's testimony

SUPPLEMENTAL RESPONSE:

North Shore has completed its recalculation of Income Taxes. Also as mentioned in NS Ex. 5.0, page 8, lines 171-173, and in response to AG Data Request 1.15, North Shore has been considering various options in response to the positive impact on cash related to the change for bonus depreciation. Those options have now been determined and quantified and the impacts of those decisions on the revenue requirement are reflected in the attachments to this response.

A listing of the changes made in this supplemental response are:

- Reflected increased capital expenditures in 2011 of $5,000,000 and 2012 of $13,200,000.
- Reflected additional contributions to the Voluntary Employee Beneficiary Association (VEBA) fund of $7,500,000 in 2012.
- Reflected a decrease in the 2012 SFAS 106 expense of $618,750 for the additional contribution made to the VEBA in 2012.
- Reflected deferred income tax changes of the above capital expenditures and benefit changes.
- Reflected deferred income tax changes resulting from bonus depreciation.
- Reflected the impacts of the tax accounting method change associated with the overhead capitalization. The same 50% tax sharing concept that North Shore made with respect to the repairs issue is also being assumed for the overhead capitalization issue.
- Reflected the increase in the state income tax rate.

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Since North Shore was recalculating its income taxes it has also included the correct calculations of deferred income taxes for Retirement Benefits – Net as explained in the response to TEE 10.03. In addition, while preparing this response, it was determined that while the original filing contained the total amount of the deferred tax impacts of the repairs accounting method changes, the amount of deferred taxes associated with the repairs vs. expense adjustment reflected on Schedule B-2.1 and in the direct testimony of Mr. John Stabile (PGL Ex. 10.0) was incorrect. The correct amounts including all the tax impacts listed above have been included in this response. These amounts will be reflected in the Company's rebuttal testimony.

Below is a listing of the attachments to this response:

NS TEE 1.17 SUPP Attach 01 – Impact on the overall revenue requirement excluding derivative adjustments for invested capital tax and interest synchronization (C-1)

NS TEE 1.17 SUPP Attach 02 – Impact on rate base excluding the derivative adjustment to cash working capital (B-1)

NS TEE 1.17 SUPP Attach 03 – Summary of Adjustments to rate base

NS TEE 1.17 SUPP Attach 04 – Adjustment for additional capital expenditures

NS TEE 1.17 SUPP Attach 05 – Adjustment for change in accumulated deferred income taxes

NS TEE 1.17 SUPP Attach 06 – Adjustment for change in Retirement Benefits – Net

NS TEE 1.17 SUPP Attach 07 – Adjustment for change in the capitalization for repairs

NS TEE 1.17 SUPP Attach 08 – Adjustment for change in the overhead capitalization

North Shore Gas Company

Retirement Benefits, Net

Item: Retirement Benefits, Net

Line No.	Description	Original Filing Balance at December 31,2011	Original Filing Balance at December 31,2012	Original Filing Average	Revised - NS TEE 1.17 Supplemental Balance at December 31,2011	Revised - NS TEE 1.17 Supplemental Balance at December 31,2012	Revised - NS TEE 1.17 Supplemental Average	Adjustment	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
1	Pension Asset/(Liability)								1
2	228331 Pension Plan	$ (11,293,000)	$ (9,177,000)	$ (10,235,000)	$ (11,293,000)	$ (9,177,000)	$ (10,235,000)		2
3	228333 Sup Ret Plan	0	0	0	0	0	0		3
4	242591 Current SERP	0	0	0	0	0	0		4
5	Net Pension Funded Status	(11,293,000)	(9,177,000)	(10,235,000)	(11,293,000)	(9,177,000)	(10,235,000)		5
6	Pension Reg Asset/(Liability)								6
7	182312 Reg Asset - FAS 158	5,666,000	5,320,000	5,493,000	5,666,000	5,320,000	5,493,000		7
10	182351 Reg Asset - Purch Acct	8,325,000	7,575,000	7,950,000	8,325,000	7,575,000	7,950,000		10
11	254490 Reg Liab FAS 158	0	0	0	0	0	0		11
12	Net Pens Reg Asset/(Liability)	13,991,000	12,895,000	13,443,000	13,991,000	12,895,000	13,443,000		12
13	Total Pension	2,698,000	3,718,000	3,208,000	2,698,000	3,718,000	3,208,000	0	13
14	Welfare Asset/(Liability)								14
15	228334 Welfare Liability	(13,414,000)	(13,029,000)	(13,221,500)	(13,414,000)	(4,910,000)	(9,162,000)		15
16	242080 Current Postretirement Welfare	0	0	0	0	0	0		16
17	242592 Currrent FAS 112 Obligation	(198,000)	(198,000)	(198,000)	(198,000)	(198,000)	(198,000)		17
18	253205 Post Empl Ben FAS 112	(501,000)	(438,000)	(469,500)	(501,000)	(438,000)	(469,500)		18
19	Net Welfare Funded Status	(14,113,000)	(13,665,000)	(13,889,000)	(14,113,000)	(5,546,000)	(9,829,500)		19
20	Welfare Reg Asset/(Liability)								20
21	182312 Reg Asset - FAS 158	0	0	0	0	0	0		21
22	182351 Reg Asset - Purch Acct	3,487,000	3,009,000	3,248,000	3,487,000	3,009,000	3,248,000		22
23	254490 Reg Liab FAS 158	(999,000)	(999,000)	(999,000)	(999,000)	(999,000)	(999,000)		23
24	Net Welfare Reg Asset/(Liability)	2,488,000	2,010,000	2,249,000	2,488,000	2,010,000	2,249,000		24
25	Total Welfare	(11,625,000)	(11,655,000)	(11,640,000)	(11,625,000)	(3,536,000)	(7,580,500)	4,059,500	25
26	Retirement Benefits, Net	$ (8,927,000)	$ (7,937,000)	$ (8,432,000)	$ (8,927,000)	$ 182,000	$ (4,372,500)	4,059,500	26
27	Rounded			$ (8,432,000)			$ (4,373,000)	4,059,000	27

NS-PGL Ex. 27.3N