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 M. GREGOR

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

NS-PGL Ex. 21.0

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I. INTRODUCTION AND BACKGROUND

A. Witness Identification

Q. Please state your name.

A. Christine M. Gregor.

Q. Are you the same Christine M. Gregor who submitted direct testimony on behalf of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (together, "the Utilities") in these consolidated dockets?

A. Yes.

B. Purposes of Testimony

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to discuss certain adjustments to the Utilities' operating expenses, and a set of adjustments related to rate base, proposed by Illinois Commerce Commission (the "Commission") Staff ("Staff") and Governmental and Consumer Intervenors ("GCI")[1] in their respective direct testimony. Specifically, I will discuss certain adjustments proposed by Staff witnesses David Sackett, Brett Seagle and Daniel Kahle, and GCI witness David Effron.

C. Summary of Conclusions

Q. Please summarize the conclusions of your rebuttal testimony.

[1] "GCI" refers to the testimony jointly presented by the Illinois Attorney General's Office (the "AG"), the Citizens Utility Board ("CUB"), and the City of Chicago (the "City").

A. As detailed below, certain adjustments recommended by Staff witnesses David Sackett, Brett Seagle and Daniel Kahle and GCI witness David Effron are either not appropriate or require corrections and/or updates to the related calculations. Specifically:

- The Utilities agree in theory with Mr. Sackett's proposed adjustment for "solicitation" revenues, but his method for calculating the adjustment is incorrect.
- Mr. Sackett's proposed adjustment to repair revenues is inappropriate.
- The Utilities agree in theory with Mr. Seagle's proposed adjustments to the working capital allowance for gas in storage in rate base, but those adjustments should be revised based on updated natural gas prices.
- The Utilities do not agree with Mr. Kahle's proposal to change to the net-write-off method of calculating uncollectible expense.
- The Utilities agree in theory with Mr. Effron's proposed adjustment to employee benefits charged to operations and maintenance, but it should be based on the most current benefit costs.
- Mr. Effron's proposed adjustments to Integrys Business Support ("IBS") benefits billed expense are erroneous because they are based on an incorrect interpretation of responses to data requests.
- Mr. Effron's proposed adjustments to injuries and damages expense are erroneous because they are based on an incorrect interpretation of responses to data requests.
- Mr. Effron's proposed adjustments to Account 921 "Office Supplies and Expenses" are partly inappropriate and the remainder should be corrected.
- Mr. Effron's proposed adjustments to Distribution expense are partly inappropriate and the remainder should be corrected.

D. Itemized Attachments to Rebuttal Testimony

Q. Are there any attachments to your rebuttal testimony?

A. Yes, I am attaching and sponsoring the following exhibits:

- NS-PGL Exhibit ("Ex.") 21.1N -- NSG – Adjustments to Solicitation Revenues
- NS-PGL Ex. 21.1P -- PGL – Adjustments to Solicitation Revenues
- NS-PGL Ex. 21.2N -- NSG – Adjustments to Employee Benefits Charged to O&M
- NS-PGL Ex. 21.2P -- PGL – Adjustments to Employee Benefits Charged to O&M
- NS-PGL Ex. 21.3N -- NSG – Adjustments to IBS Billed Benefits
- NS-PGL Ex. 21.3P -- PGL – Adjustments to IBS Billed Benefits
- NS-PGL Ex. 21.4P – PGL – Distribution Expense

II. RESPONSES TO STAFF AND GCI DIRECT TESTIMONY

A. Proposed Adjustments of Staff Witness David Sackett

Q. Did you review the testimony of Staff witness David Sackett (Staff Ex. 9.0)?

A. Yes.

Q. What aspects of Mr. Sackett's testimony will you be addressing?

A. I will be addressing Mr. Sackett's proposed adjustments to "solicitation" revenues and repairs revenues.

Q. Please describe Mr. Sackett's proposed adjustments to "solicitation" revenues.

A. Mr. Sackett proposes to use the margin on the Peoples Energy Protection Program ("PEPP") as an estimate of the market value of the solicitation services that the Utilities provide to Peoples Energy Home Services ("PEHS"). (See Staff Ex. 3.0, Schedules 3.8P and 3.8N)

Q. Do you agree with Mr. Sackett's proposed adjustment to solicitation revenues?

A. No, Mr. Sackett's proposed adjustments should be modified. While the Utilities agree that the Customer Relations area should have been billing PEHS for performing solicitation for the PEPP, the Utilities do not agree that PEHS has paid nothing to the Utilities for the solicitation services that the Utilities have provided nor with how Mr. Sackett calculated these adjustments.

Mr. Sackett's contention that PEHS has paid nothing for the Utilities' service is wrong for two reasons. As seen in the attachment to the revised and corrected response to Staff data request DAS 2.10, the Customer Relations area billed PEHS from 2004-2007. Included in these costs were charges related to the solicitation of the PEPP program to the Utilities' customers. These charges were based on a percentage allocation of time spent by the customer service representatives on calls or solicitation of the PEPP program. These labor costs were then loaded and billed to PEHS under the Services and Transfers Agreement ("STA") and its predecessor, both of which were approved by the Commission.

Further, Mr. Sackett erred in calculating the adjustment. First, any adjustment to bill PEHS for solicitation would not be revenues on the Utilities' books from 2008 going forward, it would be a reduction in expense. Starting in 2008, the Customer Relations area became part of IBS, the Integrys service company. As a result, any solicitation expenses that should have been billed to PEHS would result in a reduction of expenses billed to the Utilities by IBS, not in additional revenues for the Utilities. Second, besides the fact that the figures Mr. Sackett used for calculating the PEPP margin were not from the most updated response to Staff data request DAS 2.10, the estimate of the market value of the solicitation services should not be based on margin. Instead, the estimate of market value for such services should be based on an average of the solicitation portion of the Customer Relations expenses charged to PEHS during the period of 2005-2007, updated for inflation. According to the Commission approved Master Non-Regulated Affiliated Interest Agreement ("AIA") which now applies to billing by the Customer Relations area to PEHS, the amount billed must be at cost and not a calculated margin. Using an average of the solicitation portion of the Customer Relations expense charged to PEHS during the period of 2005-2007 is a good estimate for cost since the Customer Relations area was billing at cost during the is time frame. In addition, the Utilities and IBS are not doing a separate marketing campaign specifically for this program nor is it being solicited to all customers. It is only solicited by customer representatives to those customers who request turn-on service. Indicative of the lack of active solicitation, the number of customers taking the service has been steady or declining the past few years.

The attached exhibits NS-PGL Exs. 21.1P and 21.1N provide the average of the solicitation portion of the customer related expenses for 2005-2007. These figures were then inflated, broken out between labor and non-labor portions for 2008-2012, to determine an estimate of the solicitation expenses that should have been charged to PEHS by IBS and, thus, should have reduced the expenses charged by IBS to the Utilities by the same amount.

Q. Please describe Mr. Sackett's proposed adjustments to repairs revenues.

A. Mr. Sackett proposes that the Utilities should be charging PEHS the same rate for repairs as what they charged to customers who request this service. His adjustment is calculated by taking the rate that is charged to customers for the repairs multiplied by the number of each type of repair that was performed for PEHS, and then subtracting that from the amount already paid. (See Staff Ex. 3.0, Schedules 3.9P and 3.9N)

Q. Do you agree with Mr. Sackett's adjustments to repairs revenues?

A. No, I do not agree with Mr. Sackett's adjustments to repair revenues. According to the Commission approved STA, which is the affiliated interest agreement under which the Utilities charge PEHS for services, the Utilities are to bill PEHS at the Fully Distributed Cost for providing that service. The Utilities are billing according to the STA. When field personnel perform work for PEHS, they charge their time to a specific job code that identifies it as work related to PEPP. These labor costs are then loaded and billed to PEHS along with any non labor charges such as materials. Mr. Sackett says the Utilities should be billing PEHS what they charge customers who are not covered under the PEPP. This is not a utility tariff service. Customers do not need to have the Utilities perform this service; they could choose to use a non-affiliated third party.

B. <u>Proposed Adjustment of Staff Witness Brett Seagle</u>

Q. Did you review the testimony of Staff witness Brett Seagle (Staff Ex. 8.0)?

A. Yes.

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

A. I will address his proposed adjustments to the working capital allowance for gas in storage in rate base.

Q. Please describe Mr. Seagle's proposed adjustments to the working capital allowance for gas in storage in rate base.

A. Mr. Seagle’s proposed adjustments to reduce the 13-month valuation for the working capital allowance for gas in storage in rate base are based on the Utilities’ responses to Staff data request ENG 5.01, which was based on an April NYMEX natural gas price. (See Staff Ex. 8.0, Schedules 8.2P and 8.2N)

Q. Do you agree with Mr. Seagle’s proposed adjustments to the working capital allowance for gas in storage in rate base?

A. I agree that the filed test year prices are different than where prices are today. However, Staff calculated adjustments using an April NYMEX price which was used in the Utilities’ May Gas Charge Filing. The adjustments to the working capital allowance for gas in storage in rate base should be based on the latest natural gas prices available from NYMEX that were used in the Utilities’ July Gas Charge Filing. This resulted in a “LIFO” (last-in, first-out) natural gas price of $5.18 for Peoples Gas and 5.35 for North Shore. See Mr. Hengtgen’s rebuttal testimony (NS-PGL Ex. 23.0) and NS-PGL Ex. 23.5P and Ex. 23.5N for details and his proposed adjustments.

C. <u>Proposed Adjustment of Staff Witness Daniel Kahle</u>

Q. Did you review the testimony of Staff witness Daniel Kahle (Staff Ex 1.0)?

A. Yes.

Q. What aspect of Mr. Kahle’s testimony will you be addressing?

A. I address Mr. Kahle’s proposal relating to the use of the net write-off method for uncollectible expense.

Q. Please describe Mr. Kahle’s proposal.

A. Mr. Kahle proposes that the uncollectible expense calculation be switched to reflect a net write-off method rather than a percentage of revenue. He proposes to use actual 2010 net write-offs as the Utilities' uncollectible expense. Based on this switch in methodology, uncollectible expense would be increased by $510,000 for Peoples Gas and reduced by $421,000 for North Shore. (See Staff Ex. 1.0, Schedules 1.11N and 1.11P)

Q. Do you agree with Mr. Kahle's adjustments to uncollectible expense?

A. No, I do not agree with Mr. Kahle's proposed switch to the net write-off method, for three reasons. First, if the Utilities were to use the net write-off method, there would be no reliable method to determine how much of actual net write-offs are related to the gas charge that would be needed in order to do the filing for Rider UEA-GC. Customer accounts are written-off in total and can have receivables from multiple periods and the gas charge and delivery charge components would be different in each of those periods since gas prices can be volatile and the delivery charge would reflect the base rates that were in effect. This would differ among customer accounts that were written off. (See Ms. Grace's rebuttal testimony (NS-PGL Ex. 28.0) for additional details on how this proposed switch impacts Rider UEA and Rider UEA-GC.) Second, by using the net write-off method, there is a mismatch between the revenues and the uncollectible expense being recorded. The uncollectible expense would be based on the write-offs of receivables for sales and therefore service related to prior periods, not the current period. Although timing differences are inherent in trackers, this causes even more lag between the ultimate reconciliation of expense to the related revenue that caused the expense and especially during a few years of volatile gas prices, could cause a customer to pay for high write-offs related to years when they were not customers of the Utilities. Last, even if a net write-off method was considered, I would recommend using an average of six years of write-offs as the minimum reasonable period for any adjustment because write-off numbers can vary greatly depending on gas prices and the economy.

D. <u>Proposed Adjustments of GCI Witness David Effron</u>

Q. Did you review the testimony of GCI witness David Effron (GCI Ex. 2.0 Corrected)?

A. Yes.

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

A. I will be addressing Mr. Effron's proposed adjustments for employee benefits charged to operations and maintenance ("O&M") expense, IBS Benefits billed expense, injuries and damages expense, Account 921 "Office Supplies and Expense" expenses, and Distribution expense.

Q. Please describe Mr. Effron's proposed adjustment to employee benefits charged to O&M.

A. Mr. Effron proposes that the percentage of pension and post-retirement benefits costs capitalized in the 2012 test year track with the percentage of payroll that is charged to construction. Those adjustments would result in a reduction of $3,845,000 to Peoples Gas' test year employee benefits charged to O&M. (GCI Staff Ex. 2.0, Schedule PGL DJE-2.4).

Q. Do you agree with Mr. Effron's proposed adjustments to employee benefits charged to O&M?

A. Yes, in theory the Utilities agree that the employee benefits capitalized should be based on forecasted pension and post-retirement benefits costs as well as the forecasted percentage of payroll that is charged to construction. However, the adjustment should be based on the updated pension and post retirement costs detailed in Ms. Phillips' rebuttal testimony and a comparable adjustment should be made for North Shore. (See NS-PGL Ex. 27.1P and Ex. 27.1N) Based on these new benefit costs, there would be a reduction of $1,112,000 to Peoples Gas' test year employee benefits charged to O&M and an increase of $15,000 to North Shore's test year employee benefits charged to O&M. (See NS-PGL Ex. 21.2P and 21.2N)

Q. Please describe Mr. Effron's proposed adjustments to IBS benefits billed expense.

A. Mr. Effron proposes to modify the allocation of IBS benefits billed expense to reflect the general corporate allocator. These adjustments would result in reductions of $3,291,000 to Peoples Gas' and $911,000 to North Shore's test year operations and maintenance expense. (See Staff Ex. 2.0, Schedule PGL DJE-2.5 and Schedule NS DJE-2.2).

Q. Do you agree with Mr. Effron's proposed adjustments to IBS benefits billed expense?

A. No, I do not agree with Mr. Effron's adjustments to IBS benefits billed expense. Mr. Effron misinterpreted the Utilities' response to data request AG 1.68. In explaining why there has been an increase in the percentages of IBS benefits billed, the Utilities listed several reasons. One was there was increased labor being billed to Peoples Gas, which includes both direct labor billed as well as allocated, and second there has been a higher benefit loader rate at IBS. The response went on to state the percentages billed to Peoples Gas by the general corporate allocator have increased over the last three years because of the downsizing of Integrys Energy Services, Inc. The general corporate allocator is only one of the allocation methods that IBS uses to bill Peoples Gas and North Shore labor charges. There are approximately thirty different cost causal allocators that are used by IBS to charge the regulated utilities. NS-PGL Exs. 21.3P and 21.3N show that the percentage of IBS benefits billed to Peoples Gas and North Shore is in line with the percentage of IBS labor billed to Peoples Gas and North Shore. So, there is no basis or need for any adjustments.

Q. Please describe Mr. Effron's proposed adjustment to Injuries and Damages Expense.

A. Mr. Effron proposes to eliminate $3,077,000 of injuries and damages expense for Peoples Gas due to a claimed lack of support. (See GCI Ex. 2.0, Schedule PGL DJE-2.).

Q. Do you agree with Mr. Effron's proposed adjustment to Injuries and Damages Expense?

A. No, I do not agree with this proposed adjustment. First, the response to data request AG 4.35 cited by Mr. Effron refers to Schedule C-13, which is a summary of affiliated interest transactions, not total injuries and damages expense. Schedule C-4 for Peoples Gas shows that Injuries and Damages Expense, Account 925, increased from $12,913,000 in 2009 to $13,575,000 in 2012 or 5.13%. Over half of these amounts are based on workers compensation expenses. The Consumer Price Index for medical costs, which make up the majority of workers' compensation costs, have increased 3.41% in 2010 and are forecasted to increase approximately 3% for both 2011 and 2012, resulting in injuries and damages expense to be greater than what Peoples Gas is forecasting for test year 2012. Thus, Mr. Effron's proposed adjustment is not warranted.

Q. Please describe Mr. Effron's proposed adjustments to Account 921 "Office Supplies and Expense" expenses.

A. Mr. Effron proposes to eliminate $1,722,000 due to the expensing of self-constructed property and $2,892,000 related to forecasted increase in cellular growth. (See GCI Ex. 2.0, Schedule PGL DJE-2.6).

Q. Do you agree with Mr. Effron's proposed adjustments to Account 921 "Office Supplies and Expenses" expense?

A. I do not agree with either his proposed adjustment due to the expensing of self-constructed property nor to his proposed adjustment related to cellular growth. Regarding self constructed property, Mr. Effron states that: "Self constructed property is as much a capital asset as is property constructed by outside contractors." (GCI Ex. 2.0 Corr., 27:595-596) While it is true that costs being capitalized under the self -constructed overhead include indirect general and administrative type costs and non-labor items such as property insurance and depreciation on general structures, which have a much less direct relationship to capital compared to other overhead activity. The Utilities do capitalize other more direct type overheads such as engineering and operations management who work directly on capital projects. The Utilities believe that the overheads currently being capitalized under the self-constructed property are sufficiently far enough removed from the actual construction of the capital asset that it is appropriate to expense these types of costs. Related to the cellular growth adjustment, after further investigation into the increase in Account 921, it has been determined that $223,000 relates to increased collection fees related to a higher adoption of eBills, and $3,086,000 that was budgeted to Account 921, should have been budgeted to Account 903. This $3,086,000 represents costs related to the customer billing system (Cfirst) and as a result should have been budgeted to a customer FERC account which is where they were booked in 2009. Because this is a shift between two O&M accounts, no adjustment is necessary. See supporting work papers for detail.

Q. Please describe Mr. Effron's proposed adjustments to Distribution expense.

A. Mr. Effron proposes to reduce Distribution operations expense by $8,000,000 due to claimed unsupported forecasted increases related to locates, leak surveys and disconnects and inflation. (See GCI Ex. 2.0, Schedule PGL DJE-2.3).

Q. Do you agree with Mr. Effron's proposed adjustments to Distribution expense?

A. I agree an adjustment needs to be made related to locates, leak surveys and disconnects expense but I do not agree with Mr. Effron's adjustment related to inflation. Regarding the locates, leak surveys and disconnects expense, Peoples Gas has recently decided that it will not outsource this activity and will continue to use internal resources for these activities. As a result, I agree with the $4,000,000 reduction to Distribution expense but approximately $2,500,000 of labor costs will need to be shifted from capital to O&M which will impact the amount of capitalized benefits. This has been reflected in NS-PGL Ex 21.2P.

Regarding inflation, Mr. Effron states that an inflation allowance should only be applied to expenses that are not otherwise specifically escalated, like labor. In Peoples Gas' response to data request AG 4.23, there was not a specific inflation amount for labor given as an explanation for any increase. Mr. Effron goes on further to state the 2010 distribution costs actually decreased as compared to 2009. Mr. Effron states that approximately 70% of the 2010 Distribution Expense related to labor or$35,600,000. Based on the forecasted wage increases for unions and non-union employees, there should be an increase in 2012 related to labor of approximately $2,591,000. Using a general inflation allowance on the remaining $15,000,000 in 2010 would result in an additional increase of $698,000 in 2012 that should be allowed. Therefore, an adjustment to decrease distribution expense in 2012 of $811,000 ($4,100,000 less $2,591,000 less

$698,000) is warranted and acceptable to Peoples Gas and has been reflected in NS-PGL Ex. 21.4P.

Q. Does this conclude your rebuttal testimony?

A. Yes.